FICCI

Financial Foresights

Views, Reflection and Erudition

VOL. NO. 5 | ISSUE NO. 1 | Q1 FY 14-15

Reactions to the Union Budget 2014-15

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Budget 2014-2015 – Baby Steps!

Mr. Bharat Banka

Founding CEO, Aditya Birla Private Equity

Over years, the terminology of the annual budget had become ritualistic as statement of account with focus on the Finance Bill, besides some key phrases to excite the investing fraternity. The fact of the "Union" being an inseparable part of Union Budget was a wake-up call this time, with measures across a rainbow of areas, touching various spectrums of the country. If that seemed to a few like playing a bit for each gallery, one needs to extend vision to what touches lives of larger part of billion and a quarter. As there was something for everybody and it's difficult to cover everything, let me focus briefly on three themes i.e. view on macros and interesting long-term measures to address some deep-rooted issues, overhaul of tax administration/ investing fraternity and tools to foster entrepreneurship.

The macros:

- The courage of the FM to take up the challenge of attempting to confine fiscal deficit to 4.1% and gradually bring it down to 3.6% and 3.0% needs to be appreciated. One would fail upfront by not taking up a challenge for the fear of falling short. In realistic expectations, the eventual levels likely to be reached might be closer to 4.6%, 4.3% and 3.8%.
- The present current account deficit at 1.7% is on the back of weak

The courage of the FM to take up the challenge of attempting to confine fiscal deficit to 4.1% and gradually bring it down to 3.6% and 3.0% needs to be appreciated

industrial growth and negligible capacity creation. As pick-up in domestic demand and revival of manufacturing becomes real in 2nd half of FY15, CAD will inevitably deft handling with innovative measures and support from the RBI.

- The 3-year GDP growth targets, while aspirational, are possible and need tremendous political willingness and relentless push to drive consensus on multiple fronts. It is also important as these are assumptions behind significant increase in tax revenues. The tax revenue targets, especially for FY15, look optimistic unless we do better than default GDP growth rate of 5% or thereabouts.
- Despite doubts around rollout of GST, I am optimistic and expect announcement of regime in Budget 2015-16 or before that. However, can't say the same about DTC in its current form and if at all, it might come back in a revised form in Budget 2016-17.
- The introduction of uniform KYC and uniform dematerialization account to hold all financial assets/ instruments at a single place will bring convenience to individual investors. The underlying rationale for the Finance Ministry would certainly loop back to its macro intent of curbing unaccounted money and this measure will be another big step to move in that direction.

Tax administration/ measures:

- On the High Level Committee to address retrospective taxation, I believe it might be less effective in pronouncing decisions but would prove to be a diplomatic vehicle for negotiated settlements and a smart move to avoid international arbitration.
- While clarifying on location of managers of Funds in India, a specific clarification on Permanent Establishment issue would have been more useful. On the clarification about income of FPIs being Capital Gains, there was always a practical ground consensus for investors and tax authorities. The difference was about FPIs in tax-havens terming it as business income and paying zero tax.

- The unambiguous pass-through status for REITs and Infrastructure Investment Trusts will help these alternate assets take-off with clarity. The disappointing point is step-motherly treatment to AIFs where pass-through remains confined to VCs in Category I. There is no apparent rationale to deprive AIFs of this facility which has zero impact on exchequer. One would urge the FM to correct this anomaly and extend it to all categories of AIFs.
- The change in dividend regime for Mutual Funds & companies with gross-up is a complication and the objective of additional revenue could have been achieved by simply increasing DDT.
- The change in definition of Long Term Capital Asset [Section 2(42A)] to make it 36 months from 12 months for securities except listed equities and equity mutual funds is retrograde. While the Bill makes it applicable from 1st April 2015, it also says it is from AY2015-16, making it retrospective to assets acquired and redeemed before the Bill.
- It will create severe hardship to thousands of investors, including retirees, as their long-term financial planning would go for a toss. The change impacts 80% of MF industry (i.e. investors of Rs.8 lakh Crore) as more than 90% of non-equity mutual fund schemes is held for less than 24 months and this entire quantum will face a retrospective tax. Further, it will be retrograde for Private Equity/ Venture Capital industry as all instruments acquired till date would need to be held for 36 months and their plans will be impacted.
- The investments by PE/ VC industry in equity and in mutual funds by individual investors presume continuity. In a challenging economic scenario, the investment climate would be adversely impacted with a measure like this. In its current form, it sets a poor precedent and no investor can ever plan anything long term. It has an

impact on credibility of the Government as how would any investor trust that tomorrow even regime for equity funds and listed shares would not be changed retrospectively.

- The solution is to clarify that all the assets acquired before Finance Bill (2014) will qualify as Long Term Capital Asset if held for 12 months, irrespective of timing of redemption, and that revised definition will apply only to the assets acquired after Finance Bill gets passed. If the intent was to apply it from 1st April 2015, it should be clarified that all assets acquired after 1st April 2015 will follow the changed definition and it will apply from Assessment Year 2016-17, while grandfathering definition for all purchases made before 1st April 2015.

- It also brings to fore a key subject of treatment to domestic investors on key issues as against treatment to foreign investors. The issues of GAAR or Permanent Establishment or investments from tax-havens, whenever raised by foreign investors, are taken up on priority and seriously. The domestic investors rightfully would expect similar seriousness about their issues on taxation, tax administration and stability of regulatory regime. The pain for domestic institutional and individual investors from retrospective amendments like change in definition of Long Term Capital Asset is no less than caused to the foreign investors from GAAR, etc.
- If only the domestic investors were considered seriously, there is no reason why a large proportion from annual domestic savings at 30% of GDP would not flow to equity markets and provide a meaty counterbalance to dollar funds. With a stable regime and equal treatment, it could easily result into annual rupee flows of $40-$50 billion into capital markets from local savings, conservatively.

Entrepreneurship:

- The concept of a start-up Fund for Rs.10000 Crore is an extremely welcome announcement. However, there might be a few misapprehensions around it and needs to be set right as in absence of the right framework; a well-intended concept might find it difficult to take-off.
  - Firstly, it would not be a one-time contribution and creation of Rs.10000 Crore and in all likelihood; it will get created over a few years.
  - Secondly, as it is intended to be a Fund of Funds; we should not lose the sight to keep it that way rather than making it a direct investing vehicle. FOF status will allow it to multiply the effect exponentially. E.g. if this FOF contributes 10% of the corpus of other VC Funds, it will facilitate creating a total corpus of staggering Rs.100,000 Crore!
  - Thirdly, FOF should be professionally managed, on the lines of investors like Temasek, wherein expert investment professionals should be hired to manage the operations. In that way, the impact and reach such an institution will be able to create will be unparalleled.

The domestic investors rightfully would expect similar seriousness about their issues on taxation, tax administration and stability of regulatory regime

- An important point in the Bill that has gone unnoticed is the pronouncement about making legal bankruptcy framework that is entrepreneur friendly. This will enable risk-taking without the concerns on need to spend considerable time winding-up operations of a failed venture. India has numerous defunct companies arising out of failed businesses, which is so unlike developed markets.
- The announcement about changing the definition of MSME to take into account higher amount of capital expenditure limits is very useful. This change will ensure entrepreneurs don't create multiple MSME entities to avail benefits for MSME, rather it will help them consolidate

all entities and operate as single unit and in turn, be eligible for wider modes of funding.

In a nutshell, it appears to be baby steps, less confrontationist measures and plucking low hanging fruits as the new setup settles down; as also manifest in interviews of the FM that preference is not to follow a path where you start with a traffic jam (read that as upfront resistance by various conflicting quartets) but take a path that initially has the least resistance and gradually building consensus and smoothening the drive. Well, this approach has not been tried earlier, so it doesn't come with a legacy and deserves a chance… Don't judge the movie by the first-release of the trailer, *Picture abhi baaki hai!*

Bharat Banka

Founding CEO

Aditya Birla Private Equity

Bharat heads Aditya Birla Private Equity (ABPE) as its Founding CEO. He led the initiative to build team & raise ~$200 million in two INR funds, making ABPE one of the largest domestic manager of INR funds. With diverse experience of more than 20 years in business, strategy, principal investing, M&A, post-merger integration, capital markets & CXO-level roles, he brings unique value-creation abilities.

ABPE Fundsfocus on late-stage and early-stage growth; with a marquee portfolio including CARE (credit rating), RBL Bank, Coffee Day Resorts (owns Café Coffee Day), BSE (stock exchange), Treehouse (education) and Olive Bar (hospitality).

In earlier role as Head of Group Finance at the Aditya Birla Group, he played a pivotal role in expanding the Group through complex M&A and organic routes. Before joining the Aditya Birla Group in 1994, he was with the Indian JV of J. P. Morgan with ICICI.

Select career highlights of Bharat include formation of one of India's largest GSM mobile company ($10 billion Idea Cellular); India's largest cement business ($10 billion UltraTech Cement); India's non-ferrous metals giant ($8 billion Hindalco) and multi-business conglomerate with financial services& branded retail ($3 billion Aditya Birla Nuvo); all through a series of multi-billion dollar innovative acquisitions, capital market interventions, mergers and post-merger integration.

He is personally an active mentor-investor and is on Advisory Councils of a few early-stage companies.Bharat mentors entrepreneurs as an active member of Indian Angel Network (IAN) and Mumbai Angels (MA);asa founding Charter Angel at Venture Nursery, an accelerator and as a Charter Member of The Indus Entrepreneurs (TiE).

Beyond the Budget – Making the Government Strategy Effective

Ms. Preety Kumar, *Managing Partner, Amrop India &*
Dr. Prasad Medury, *Partner, Amrop India*

The Union Budget is the most important economic tool used by the government to build and communicate the strategic priorities and financial plans for the country. Budget announcements have always been a highlight event and this year the anticipation was even higher due to the excitement around the new government. Predictably, since its announcement, this maiden budget of the new government has been a subject of intense scrutiny and debate. Excellent views are emerging on the pros and cons and more will come as the details of the budget become better known and understood.

We will, hence, steer away from presenting a similar debate and instead present four angles that can indicate a way forward on making the intent of the budget more effective:

1. Government should take a more holistic approach to communicating priorities by ensuring all key ministries communicate their strategic priorities and plans, thus paving way for greater political and economic accountabilities of all ministers.
2. This budget has presented important structural decisions which we see as long-term building blocks of the economy.

Government should take a more holistic approach to communicating priorities by ensuring all key ministries communicate their strategic priorities and plans

3. While infrastructure is a visible economic priority, lack of leadership and domain expertise can hinder India's infrastructure development.
4. The government needs to take a more integrated approach to economic growth by enabling the right ecosystem for building leadership talent needed.

Government should take a more holistic approach to communicating priorities by ensuring all key ministries communicate their strategic priorities and plans

We believe the public accountability model is a big missing piece and historically governments seem to shy away from creating a model of accountability for all ministers.Now that the budget has been announced, we would like to hear the strategic plansof individualministries, especially those that are responsible for implementing key structural decisions made in the budget such as the Ministry of Urban Development, Ministry of Finance, Ministry of Road Transport and Highways, Ministry of Shipping, Ministry of Tourism, and Ministry of Petroleum and Natural Gas.

This budget has presented important structural decisions which we see as long-term building blocks of the economy

The budget can be looked at in five main segments: the macroeconomic parameters, financial aspects, infrastructure development, social equity, and defense and heritage. Some of the keystructural decisions presented in the budget across these segments include:

- Setting up of the Expenditure Management Commissionto manage fiscal deficit
- Establishing a Rs. 10,000crore venture fund–one of the largest funds in the country–to promote entrepreneurship in the country
- Allowing domestic companies to obtain advance ruling with regard to their direct and indirect tax liabilities to reduce litigation issues
- Creating a multiplier effect on growth in the infrastructure sector through investments earmarked for infrastructure andthe Rs. 2.5 lakh crore capital investments by PSUs
- Creating Real Estate Investment Trusts and Infrastructure Investment Trusts and offering tax incentives for these trusts to help raise long term funds
- Encouraging banks raise long term funds for lending to infrastructure sector by providing exemptions in CRR and SLR
- Providing 10-year tax holidays to companies which begin generating, distributing, or transmitting power by March 2017 to give a push for completing projects
- Infusing over Rs. 1000 crore for various initiatives in the travel and tourism sector to promote job creation and economic growth

While infrastructure is a visible economic priority, lack of leadership and domain expertise can hinder India'sinfrastructure development

Dearth of leadership talent and domain expertisein the infrastructure sector is a major issue. With all the infrastructure investment envisaged in the public and private sector, where is the leadership talent in General Management, Project Management, Project Finance, and Engineering Functions? There is not only a shortage of such leaders, but more importantly, capability levels do not match the strategic needs of the sector. Let us look at this is more depth:

While government's focus on skill development is rightly placed, the critical issue of building leadership talent needed to drive growth in many industries is not reflected in the government's agenda

- Urban Infrastructure:Deep knowledge of different business models for different types of infrastructure including real estate, financial acumen including an understanding of different ways to raise short and long termfunds and dealing with credit rating agencies are essential. Leaders will also need to understand consumer psychology (for

example, to be able to identify the best way to sell to the consumer). Market segmentation capabilities and architectural design expertise will also be important.

- Power: Leaders must possess a deep understanding of how to use the latest technologies to create process efficiencies, reduce cost, and address environmental concerns. For renewable power, understanding government policies and advocacy skills will be important. Further, finance talent is critically needed to expedite financial closure for projects. Simultaneously, project management talent is urgently needed to ensure that projects are commissioned on time and various bottlenecks like land acquisition, environmental clearances, and access to cost effective feedstock on a long term basis are planned in advance to minimize any delays in project implementation and transition to commercial production.
- Ports and Airports: Since there has been limited privatization in ports and airports till now, most of the talent has been in the public sector. A key expertise the private sector talent will need to build is knowledge of business models to understand how to generate revenue through services. Important aspects of this type of infrastructure is the need to create joint ventures to work with partners in offering multiple services which will maximize the revenue stream needed to service the high level of debt taken by private developers in greenfield or brownfield projects.

We believe this is a real bottleneck. While government's focus on skill development is rightly placed, the critical issue of building leadership talent needed to drive growth in many industries is not reflected in the government'sagenda. These capabilities will not grow in India suddenly. Hence, in the short to medium term, talent requirements will be best matched by sourcing talent from outside India. We believe the government has a clear role to play here which we highlight in the next section.

The government needs to take a more integrated approach to economic growth by enabling the right ecosystem for building leadership talent needed

Bringing in experienced talent from outside India is an essential short and medium term solution to (i) fill the immediate leadership talent shortages in the infrastructure sector in India, and (ii) build capabilities for the long term by leveraging expats forknowledge transfer to talent in India.

However, a study done by Amrop India on Expatriates in Indian Companies shows that India struggles to attract top expat talent to India. The biggest challenge to attracting such talent to India is family-related issues which include lack of international schools, perceptions of safety especially for women, and difficulty finding employment opportunities for spouses. Other key issues that deter expats from coming and staying in India include complex government processes, pollution levels, conflict in cultural values and lack of basic infrastructure such as public transport, public hygiene, etc.

The study highlights Singapore as a preferred destination for expats; in fact, one-third of Singapore's workforce is made up of foreigners. While we may argue that Singapore has some inherent natural resource advantages that have allowed them to build a strong infrastructure base, we cannot overlook the effort the Singapore government has made to specifically attract and retain global talent. The Singapore government has made significant investments in five areas to make the country an attractive place for highly skilled global talent:

1. Economic:Stable, globally competitive economy that continually seeks new growth sectors
2. Education:Establishment of reputable international schools
3. Political:Stable, efficient political system that ensures integrity in all aspects of society
4. Legal:Good governance and a sound judicial system and legal framework
5. Culture:Cultural ecosystem that welcomes and integrates global talent

This example clearly shows that the Indian government has a key role to play in attracting and retaining top expat talent to build capability in the infrastructure sector. The govern-

ment needs to make investments in upgrading the social infrastructure in hubs where expat talent is required – for example in coastal cities and tier 1 and 2 cities where investment in ports, airports, and real estate is likely to take place.

Hence, regardless of the amount of investment proposed for initiatives in different sectors, if the government does not address challenges related to availability of leadership resources,clear bottlenecks to economic growth will continue to exist.

Preety Kumar
Managing Partner
Amrop India

Preety Kumar is the founding Partner of Amrop India and has more than two decades of experience in executive search consulting. She is a member of the Global Board of Amrop and leads the Global Marketing Committee. Her fundamental expertise lies in Consumer & Retail and Telecom industries and HR Leaders functional practice. She is an Honors graduate in Psychology and holds an MBA degree from University Business School, Chandigarh. She serves as an Independent Director on the Advisory Board of Sanmar Group, India and has also chaired the Corporate Governance Task Force at FICCI for 2 years.

Prasad Medury
Partner, Amrop India

Dr. Prasad Medury is a Partner at Amrop India and has over two decades of leadership experience in the Technology industry and in Academics. He leads the Technology Practice for Asia Pacific and also leads the Infrastructure and IndustrialPractices in India. In his previous role as Managing Director of Silicon Graphics (SGI), he is credited with its growth as well as strategic development of its business across South Asian countries and other Indo China countries. He holds a Ph.D. in Business Administration from the University of Cincinnati, USA, and is also a qualified Chartered Accountantfrom the Institute of Chartered Accountants of India.

Reactions to the Union Budget 2014-15

Mr. T. R. Ramachandran
Chief Executive Officer & Managing Director
Aviva Life Insurance India Ltd

The maiden Union Budget from the new Narendra Modi government is decidedly pro-development and business-friendly. By announcing a slew of measures – including development of new cities, roads, ports, airports and waterways; setting up of several industrial corridors across the country; offering various incentives and concessions to domestic manufacturing units;re-energizing the labour intensive textile sector; reviving SEZs, etc., – the Union Finance Minister Mr. Arun Jaitley has laid an elaborate roadmap for the future.

Similarly, the various moves to incentivize the farm sector, including setting up of new warehousing facilities, deserve applause. Over time, these measures should bring in stability in food prices. Also, it must be remembered that close to 33% of India's farm produce gets wasted every year.

What is particularly commendable is the new government's continued commitment to rein in the fiscal deficit at 4.1% in FY15 (along with projections of 3.6% in FY16, and 3% in FY17), and return to 7-8% growth. It must be remembered that the new government will be facing the daunting challenge of meeting the large carried forward food and fertiliser subsidies. Thus, implementation of further revenue-strengthening or expenditure-saving measures will be the key issue here. Income-tax sops, according to some

Introduction of uniform KYC norms and inter-usability of the KYC records across the entire financial sector will make the whole process of investing simple, fast, and cost-effective for all stakeholders

estimates, actually have had the net effect of reducing revenues by 0.1-0.2 percentage of GDP. The freebies– though appreciated by the common man – may actually result in a revenue loss of over Rs 22,000 crore, while some revenue projections particularly on the indirect taxes front continue to look a tad optimistic. Perhaps, achieving a 2X divestment target of Rs 63,400 crore– aided by a buoyant equity market – will prove to be a critical step to contain the deficit numbers. The government – I am sure – will pursue a policy of either expenditure rationalization or higher non-tax receipt mobilization, in case there is a threat of a slippage on the fiscal deficit front. While the Finance Minister spoke about not leaving a debt burden on future generations, subsidy rationalisation remains a key concern area. The Budget, thankfully, aims to restrict the subsidy burden to 2% of GDP in FY15, down from 2.3% in FY14.

Apart from showing the right intent on the macro-economic front, the Union Budget offers an array of sops to foreign investors, and promises a stable taxation regime. Whether it's retrospective taxes or taxes on foreign portfolio investments and transfer pricing, the new regulations certainly provide a much-needed succor to prospective and existing foreign investors. It is heartening to note the Finance Minister'sassurance that the Government will exercise its sovereign right to undertake retrospective legislation – only with extreme caution and judiciousness. This shows the government's awareness about the negative impact of each such measure on the economy and the overall investment climate. The Finance Minister's announcement on initiatives to reduce the huge number of cases in litigation is also praiseworthy.

Along with overseas investors, domestic retail investors also stand to gain from this Budget. Introduction of uniform KYC norms and inter-usability of the KYC records across the entire financial sector will make the whole process of investing simple, fast, and cost-effective for all stakeholders. Similarly, the move to introduce one single operating demat account to enable Indian financial sector consumers access and transact all financial assets through this one account is also a great measure. This will not onlyhelp investors in finding all their investments at one place, but will also assist the insurance sector in complying with IRDA guidelines on E-policy issuance.

Admirably, this Budget gives adequate focus on the infrastructure sector. The Budget recognises roads and highway development as a critical necessity for sustainable growth and amply provides for the same. The relaunched Pradhan Mantri Gram Sadak Yojna(PMGSY-II) will help improve rural connectivity further and is likely to usher in the next phase of rural development in the coming years. Along with rural, this Budget lays emphasis on urban development. Accordingly, it has allocated a sum of Rs. 500 billion for the Urban Renewal Mission for the next five years. It is expected that the proposed Infrastructure Investment Trusts (INVITS), a modified REIT like structure, shall help boost funding for the infrastructure sector. We are confident that the allowance of tax pass-through to REITs and lowering of investible area thresholds (for smart cities) shall usher in greater investment in both real estate and infrastructure space. Moreover, relaxations in CRR, SLR and PSL requirements for infrastructure lending shall enable banks to mobilise larger loans and also passthrough lower costs to the sector. Capital entering India through this and increased FDI limits in insurance and defence would also help the government fund long-term infrastructure projects.

The Finance Minister deserves to be commended for trying to introduce changes in personal savings patterns. In recent years, not only has India's savings rate significantly reduced owing to higher inflation and changing consumption trends, but financial savings also have been the hardest hit with more investments flowing into gold and real estate. Under these circumstances, the decision to enhance the investment deduction limit for individual taxation, raising the cap on investment in the PPF accounts and the reintroduction of KisanVikasPatra (KVP) will no doubt help boost financial savings in the coming months.

On the personal tax front, the move to increase the 80C limit to Rs 1.5 lakh from Rs. 1 lakh will add roughly Rs. 4,000 gross eligibility per month to the common man's savings. In addition, there will be tax savings due to increase in exemption limit from Rs. 2 Lakh to Rs. 2.5 Lakh. Again on the issue of personal tax, increase in deduction for interest on housing loan for self-occupied property from Rs. 1.5 lakh to Rs. 2 lakh will bring incremental tax saving. All the above measures will result in tax saving of Rs. 15,000-40,000 p.a. (depending on the income bracket), leaving additional money in the hands of common investor. A substantial portion of these savings can be channelized into investments and in particular insurance schemes.

Personal savings, of course, also include insurance. It is expected that the relaxation of 80C norms and income-tax exemption limits will lead to people investing more money in insurance schemes. This is expected to provide further fillip to the insurance sector that has just been allowed an enhanced FDI limit of 49%. FDI in insurance was indeed long awaited. Thus,the decision to open up greater FDI participation in the insurance sector was very much the need of the hour and is most welcome.Many foreign insurance players, both existing and new, have been interested in increasing their participation in India, but were held back by the previous threshold limits. One expects substantial sums of money ($ 10-15 billion,

according to some estimates) to enter the Indian market. The inflow of fresh funds will not only providethe much-desired capital impetus to the industry but will also see new players entering the Indian insurance space. We will also witness the launch of newer competitive products that will provide benefit to the general populace as a whole.

Also, the convergence of the current Indian accounting standards with the International Financial Reporting Standards (IFRS) for insurance companies will help bringing in international best practices for the sector.

Importantly, the Budget proposes to take up the pending Insurance Laws (Amendment) Bill for consideration of the Parliament. This indicates the government's commitment and seriousness of approach.

The Indian insurance industry took note of Mr. Jaitley's admission that the "benefits of insurance in India have not reached a large section of the people and insurance penetration and density are very low" and that "the Government would work towards addressing this situation in multi-pronged manner with the support of all stakeholders concerned."Thus, going forward, the government, IRDA and the private insurance industry should together work out ways to adopt a "multi-pronged" approach to increase penetration and density of insurance services. These would entail offering suitable incentives, using banking correspondents, strengthening micro-offices opened by public sector insurance, etc. In this regard, the introduction of uniform KYC norms and inter-usability of the KYC records across the entire financial sector will not only provide a lot of relief to first-time investors in life insurance products, but will also result in reduction in unnecessary and repetitive paper work and delay in operations. Uniform KYC norms will also ensure insurance companies completing sales procedures faster. We believe that introducing measures such as National Savings Certificate with insurance, along with the exemption of life micro-insurance schemes from service tax – where the sum assured does not exceed Rs 50,000– will go a long way in building insurance culture in this country.

It is expected that the proposed Infrastructure Investment Trusts (INVITS), a modified REIT like structure, shall help boost funding for the infrastructure sector

While the Union Budget has been progressive, all stakeholders must remember that reforms are a process and not a mere standalone event. Along with policy pronouncements, a lot of work pertaining to faster clearance and state-level co-ordination should happen outside the Budget. The key take-away from the Budget is that the government is keen to move on a path towards fiscal consolidation and focus more on investments, which augurs well for a gradual improvement of India's macroeconomic fundamentals. Now, the government and the insurance sector need to deliver.

T. R. Ramachandran
Chief Executive Officer &
Managing Director
Aviva Life Insurance India Ltd

TR Ramachandran or Ram, as he is popularly called, is the Chief Executive Officer and Managing Director of Aviva Life Insurance India, a joint venture between DaburGroup and Aviva Group UK.

Ram is a veteran in the banking and insurance business.

Prior to Aviva, he was with Citibank 19 years where he held different roles in credit cards, assets, commercial and retail banking. His last role in Citibank was as the Head of retail banking responsible for the entire gamut of services including wealth management, branch banking, investments, insurance, consumer assets & the NRI business.

He is also on the Board of Aviva Global Services Customer Service (India)Pvt Ltd

Ram holds an MBA degree from Bharathidasan Institute of Managementand is an alumnus of the CSEP Management Program from Columbia Business School, New York.

Reactions to the Union Budget 2014-15

Mr. Sandeep Ghosh
Chief Executive Officer
Bharti AXA Life Insurance

The maiden budget of the new Government delivers on the expected impetus to the economy but cannot proclaim to be radically different as the markets may have expected it to be. The thrust on reviving the economy is evident from the increased investment allocation in infrastructure. The government has allocated Rs. 37,000 crores towards building of new roads, a sum that is significantly higher than what was spent last year (Rs. 10,000 crores). The Finance Minister in his speech has also divulged the Government's plan to invest in 16 new ports, give tax exemption to power projects for 10 years and reduce withholding tax rates for the monies raised through bonds from overseas markets. Additionally the focus on investment in railways (in the rail budget earlier) points to a revival in CAPEX with a clear intent to create momentum and growth in the area of infrastructure.

The budget also aims to cut the Fiscal Deficit to 4.1% and this will be tested seriously as the year goes by. Though the Government has taken up this target as a challenge, it will need a host of factors to fall in place before the target can be achieved. Further, the target for 2015-16 is 3.6% and that will only be achievable if this year goes as planned.

The Finance Minister in his speech also mentioned that they plan to achieve a GDP growth rate of 8% in next 3 to 4 years. The number at this point sounds conservative as the country

The increase in 80C investment cap from 1 lakh to 1.5 lakhs will bring cheer amongst the large part of the Indian population

seems poised for a better growth rate. With the kind of electorate mandate this Government has received, they can and should bring out policies that will help achieve a double digit GDP growth rate. This will require a mindset driven by continuous policy enrichment that doesn't stop at the budget, but improves through the year. Having said that, considering that the economy has grown at rates below 5 % in the last few years, a promise to achieve 8% gives a positive outlook for the future.

The budget clearly has a salaried/ middle class orientation, with host of policies and concessions. The increase in 80C investment cap from 1 lakh to 1.5 lakhs will bring cheer amongst the large part of the Indian population. Increase in the tax exemption limit from 2 lakhs to 2.5 lakhs also shows a clear skew towards the masses of India, so does the increase in housing interest limit to 2.5 lakhs. The increase in the limit for PPFs to 1.5 lakhs will also add to the joy this budget has brought to middle and lower income households.

An accent on the retirement planners/senior citizens is also highlighted in this budget. The tax exemption limit has been increased to 3 lakhs from the current 2.5 lakhs, for senior citizens. Government has also reintroduced the Varishta Pension Bima Yojana that will directly benefit pensioners. With a notification of a minimum pension under EPS-95 scheme, the budget shows its commitment to social security and welfare of the salaried class. The effort is clearly on providing encouragement for small savings, retirement plans and protection for senior citizens.

Another area that has found attention in the 2014 Union Budget is the agricultural and farming sector. There is a conscious effort for the development of this sector. The Government has introduced initiatives like providing interest subsidy for agricultural loans, developments of roads in rural areas and establishing markets for agricultural and farm products. New Urea related schemes and leveraging technology towards key areas like soil testing will only boost this sector in the coming months. Leveraging technology as a key initiative towards growth brings the oft mentioned "rurban" approach to rural economy alive. This thrust on the rural economy through development projects will put the larger economy on a growth path.

Finance Minister has tried to address some of the concerns of the finance sector like fund raising by banks, extending liberalized facility of 5% withholding tax to all bonds issued by Indian Corporates abroad &relaxing the SLR and CRR requirements. The financial sector regulators have been advised to eliminate unnecessary restrictions, with a focus on creating a vibrant, deep and liquid corporate bond market and on intensifying the currency derivatives market. There are also plans to liberalize the ADR/ GDR regime. Efforts will be made to liberalize the regulatory framework for raising capital and advancing long term financing to the infrastructure sector, sending out a clear signal towards a PPP (Public and Private Participation) model of growth. The same intent is expressed by increasing FDI to 49% in the defense sector.

The opening up of the Insurance Sector in the early 2000s for private players has not given desired results. Initially the insurance penetration rate increased, but due to frequent changes across all facets of this industry, stagnation is now setting in. There has been a huge demand from insurers and stake-holders for regulatory relaxation in terms of tax incentives and FDI limits. This concern has been addressed by the announcement of an increase in the composite cap on FDI limit in Insurance sector to 49%. This is a much needed step for the capital starved industry where an estimated $3 Billion could now flow into the sector. Insurance business has a long gestation period and requires huge capital investments in the initial periods of operation. This step will definitely build a platform for growth of the industry, which will in-turn contribute towards nation building by generating more employment and providing better social security. What remains to be seen is the clarity on any possible riders to the policies announced. Now that the intent has been clearly expressed; the industry will eagerly await the passage of the long pending Insurance Amendment Bill in the Parliament. Increase in the tax incentive for long term investments shall encourage more potential insurance buyers and should result in improvement in insurance penetration. Incentivizing the micro insurance policies is another welcome step in this direction. Finance Minister has declared that there will not be any service tax levied on the premium in case of a micro insurance policy having sum assured up to Rs. 50000. Introduction of uniform KYC norms across the financial sector and single Demat account for all the financial instruments shall encourage the prospective customer to purchase insurance. What disappoints is the budget's approach to health insurance, a sector which has witnessed a sharp increase over the years. The first step the Government should have taken is an increase in the tax exemption limit under Sec80D of the Income Tax Act. This would have encouraged larger and deeper health coverage amongst the masses and would have resulted in an improvement in the overall healthcare sector. Though the Government has earmarked close to 39,000 crores for the health sector in this budget, a parallel policy route of encouragement towards health insurance would've added more punch to these initiatives.

The effort to boost the industry does get dented by the introduction of TDS on the policy payments (on policies which do not qualify for tax

exemption under Income Tax Act) and the limitation on the time period for availing the CENVAT credit. Since the insurance companies have long gestation periods, the companies have long CENVAT credit built up in the initial years. Utilizing the input credits within 6 months of creation is a tough ask and will contribute to losses if it is not utilized. A reasonable period of limitation would be around 2 to 3 years.

It is clearly evident that the budget has a focus on long-term savings. This has manifested in the proposals of incentivizing long-term saving tools such as Life Insurance, PPF etc. and making the tax laws more stringent for availing concessional tax rates for mutual funds. These steps have been taken to generate long term investments for infrastructure funding and providing momentum to the economy.

In light of the assurances given at the time of electorate campaigns, of a stable and predictable atmosphere for tax administration, there is a disappointment that the retrospective amendments which had attracted large-scale criticism have not been rolled back. However, in its place there is an assurance from the Government that the future will be free of any such controversies. The Government has also assured that they will form a high level committee to examine future cases that are impacted by the already introduced provisions. This gives an indication of positive legislative intentions.

There are other hosts of measures that do intend to provide certainty and clarity in the tax laws:

i) Extending the advance ruling provisions to the residents,
ii) Strengthening the Authority for Advance Rulings by constituting additional benches
iii) Proposal to enlarge the scope of the Income-tax Settlement Commission so that taxpayers may approach the Commission for settlement of disputes
iv) Proposal to set up a High Level Committee to interact with trade and industry on a regular basis and ascertain areas where clarity in tax laws is required

These steps are in the right direction and would go a long way in improving the confidence of taxpayers in the tax system.

A short-term correction in the markets is a possibility given that some of the proposals are in-line with expectations and the markets have rallied ahead of the budget.

Though the Government is just a month old, there is a lot of positive intent and, a firm understanding of the multi-faceted nature of our economy. It is definitely a road map for the coming nine months and a foundation for more radical changes during the course of the year as well as in the next budget in February 2015.

Sandeep Ghosh
Chief Executive Officer
Bharti AXA Life Insurance

Sandeep Ghosh has over 23 years of experience in India and overseas, primarily in the financial services sector. Sandeep has maintained a consistent track record of having successfully developed, transformed and divested businesses in over 25 countries across Asia, Europe, Africa and the Middle East.

At Bharti AXA Life, Sandeep has been mandated to turnaround the business and put it on a road to profitability with a sustainable and scalable business model. Under his leadership Bharti AXA Life has become a strong business entity that is on its way to becoming a profitable franchise.

Prior to joining Bharti AXA Life, he was with ANZ as the Managing Director, Commercial Banking Head for Asia Pacific based in Hong Kong. During this time, he played a major role in building a commercial banking franchise for ANZ in Asia through organic builds and the integration of businesses acquired from RBS.

Before joining ANZ, Sandeep spearheaded the Commercial Banking for Royal Bank of Scotland in Asia. He was responsible for Business Banking, SME & Middle Market client franchises, managing a team of over 1,000 bankers and 40,000 client relationships across 9 countries.

Prior to this, he was with Citibank for 9 years during which he held various roles, lastly as Managing Director for the Global Commercial Bank in India. During his tenure, he led the India business to become the largest organically built commercial banking franchise within Citi.

Sandeep Ghosh is an alumnus of the Indian Institute of Management, Ahmedabad.

Reactions to the 2014 Budget – From a Small Enterprise Perspective

We are on the right way now, even if not right away!

Mr. Ravi Ramakrishnan
Managing Director, C&K Management Ltd., India &
Director, TMI Group of Companies, Hyderabad

Initial reactions to the 2014 Budget? Mixed, indeed. And, for very good reasons!

The NDA Government was handed a landslide victory on the premise of "*Ache Din…*" Being the dreamers that most Indians are (including I), the expectation was that the Prime Minister and Finance Minister would magically turn thingsaround in 45 days flat. Cut taxes, reduce interest rates, revive economy, contain deficit, bring down inflation…; the list was endless.Every TV channel brought on droves of experts to drive the hype. Little realizingthat the real world is not flat, it has ups and downs; and as a country we were far too Down, for the Up to happen so quickly. I guess, expecting a Bollywood-type revival – of the Hero bashing up a 100 bad guys to rescue the pretty damsel does not work in real life. And, definitely not for the Government's finances.

Reading up more about the Budget, thinking up some more about it, and discussing lots more about it with peers, made me react a little differently

I would like to categorize these reactions under four headings (4Rs) – Realistic, Relevant, Rigid and Reviving

from the initial disappointed reaction. I would like to categorize these reactions under four headings (4Rs) – Realistic, Relevant, Rigid and Reviving.

Realistic

A detailed read of some of the provisions of the budget and listening to the FM on different TV channels does give a feeling that he has attempted to be realistic. He has not attempted to take a jump shift from earlier budgets to attempt miraculous corrections. Most corrections seem to be balanced and nuanced – be it the tax breaks for individualsor correcting the imbalance in debt funds; be it GST or other forms of Indirect tax; be it fixing subsidies or tinkering with some of UPA Government's pet projects. I believe that the idea of multiple initiatives of Rs. 100 crores each to be brilliant. Very often, huge projects with huge outlays are announced, with hardly any offtake of funds as the idea was flawed or the execution poor. This idea of active experimentation prior to large-scale funding will ensure that only good ideas and good schemes find funding. I guess this is a good concept picked up from the private sector, where test marketing and concept testing, and commercial viability are mandatory before any large-scale investment is done.

Relevant

Some of the provisions are really interesting for SME enterprises such as ours. A Rs. 10,000 crore fund for start-ups is definitely a wonderful idea.This will enable a large number of people become entrepreneurs and perhaps build businesses and add jobs. As long as there is a good system set up with good people to evaluate ideas for commercial viability and societal impact, this should do wonders for building the wealth of the nation. The idea of a Special Committee to study funding woes of SMEs and recommend solutions will help us entities a lot. During the last few years, most of us have struggled with delayed collections, as our principals could not pay on time due to their slowdown in business.And, banks have not really expanded credit to smaller entities, fearing NPAs. Interest rates have been very high and funding not really easy for any expansion of activity. With the mood improving and business increasing, the proposed committee should go a long way in ensuring adequate flow of funds to SMEs – hope they meet quickly and come out with action plans rapidly.

The Digital India program of connecting all rural households and increasing transparency in government services are likely to have a far-reaching impact on how rural India can leap forward to the digital age and integrate with us city folks. This, along with the promised 24 by 7 power within a few years, should dramatically transform India forever. It is a crying shame that many decades after Independence we still face unscheduled power cuts for hours. On a crass level, 24 by 7 power will also mean that SMEs, such as us, would be able to bring down our overall power bill dramatically. As, we would not have to run the diesel generator for 8–10 hours a day at prohibitive operating costs to prevent idle time of 100s of employees waiting for hours and meet delivery SLAs.

Rigid

On the flip side, the FM seems to have become rigid on the Deficit numbers. While the intent is indeed laudable, with the "give-aways" in the budget and no reductions talked about in the various populist schemes, it will indeed be magic if the 4.1% target is met. No one seems to believe this, though the Finance Secretary and team are stoutly defending it. Let us indeed wait to see if this magic does happen. Perhaps, all the extra money left in individual tax payers hands will reinvigorate spending or get invested in savings – both of this should drive economic revival. More importantly this money is not small change and if the expected spending or investments do take place, this will give some extra cushion to meet the target. Ditto, ditto on the retroactive taxes – of course all such things do not really impact SME organizations.

Reviving

The mood of the country has definitely changed post the new government taking over. In fact, even as the elections were being held, the mood had swung. Being in HR Services, all our group companies have seen a ramp up of outsourcing across sectors since March itself. I am sure that this is true of most SMEs, as

the larger companies were waiting for an opportune time to re-commence investments for expansion of activities. The budget has only helped sustain this, despite any small hiccoughs, here and there.

The tax savings, small corrections here and there, the genuine desire to change the current status quo; all should help. As an aside, the tax savings along with the reduced inflation will help us SMEs contain the wage inflation for this year. Most of us dread the April-Jun season as increments are due and perhaps will be better relaxed this year.

Some other interesting changes proposed in the Budget will make a big impact soon. The decision to make NREGA fund produce assets will mean that people will really need to work and produce something – not just sign up and get dole! A terrible side effect of NREGA has been to put easy money in rural hands, who then do not want to take up gainful employment for the balance 265 days of the year. By making them really work for the 100 days entitlement, this will bring back the balance in the job market, and SMEs will be able to hire the required hands at affordable rates. The skills agenda of the Government, with decision to have a Skills Ministry and integrate central and state budgets,as well as move to fix leakages, will go a long way to build an effective workforce. We truly welcome this initiative as we believe that companies, such as ours, in partnership with the NSDC, the nodal agency for skills development in India, will be able to skill and feed the workforce requirements of Corporate India. While more details are awaited, the Gujarat model of skill vouchersis expected to be deployed,and this will ensure low leakage or misuse of such funds and drive value for the money being spent. This will be a win-win-win for all the stakeholders.

The decision to make NREGA fund produce assets will mean that people will really need to work and produce something – not just sign up and get dole!

In conclusion, the 2014 Budget will be historic for many reasons. On a lighter note, for the lack of poetry during the longish speech! On a serious note, for the earnestness in trying to revive the economy and uplift every Indian's spirits to aspire back for the "*Ache Din*". If not right away, at least we have started on the way!

Ravi Ramakrishnan

Managing Director, C&K Management Ltd., India &
Director, TMI Group of Companies, Hyderabad

Ravi is a 54-year-old Chemical Engineer with a Post-Graduation in Management from Top Schools in India – BHU-IT (now IIT Varanasi) and IIM Calcutta. He has nearly 30 years of varied, cross-functional experience in a Multi National Corporation, Consulting, HR consulting firm, Learning, Training and Digital Content firm spanning an array of functions. He co-promoted C&K Management in 2000 and spearheaded the company's transition from a dot.com to an organization providing outsourced services in the areas of learning, training, content and knowledge to top Corporate and Institutional customers in India, Middle East and Africa, and the West.

Several new ideas for the financial sector, implementation critical

Mr. Pawan Agrawal
Senior Director - Ratings, CRISIL Limited

Finance minister Arun Jaitley's maiden Budget contained many small steps to revive the investment cycle, while maintaining emphasis on fiscal prudence. This will help in stabilisation and growth of the financial sector as well.

Overall, the budget introduced several innovative ideas for the financial markets, which have a potential to transform some of its segments. The announcements in the budget were positive for insurance sector, but did little to address the capital constraints in banking. Further, the proposals were largely negative for the Indian debt and securitisation markets.

Here are eight themes that sum up the impact on the financial sector:

1. New ideas mooted can alter banking landscape

The Budget discussed several new ideas for the banking sector, including setting up of differentiated banks. It also talked about encouraging consolidation among public sector banks (PSBs) – a move that can help enhance their scale and ability to raise capital along with giving them greater autonomy. If implemented, these ideas have the potential of enhancing the reach and efficiency of the banking

The budget introduced several innovative ideas for the financial markets, which have a potential to transform some of its segments

system, and creating new forms of banks for payments and credit.

It also suggested permitting banks to raise long-term bonds (for lending to infrastructure) with minimal regulatory restrictions. This longer-tenure funding for banks will enable them to better manage their asset-liability mismatch. Further, the reduced need to maintain CRR and SLR will lower their cost of borrowings.

2. Budget paves the way for introduction of two innovative vehicles (REITs and InvITs) in India

In an important announcement, the budget allowed pass-through status for the purpose of taxation to two new vehicles for real estate and infrastructure segments - Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs). This clarity on taxation will allow these innovative financial vehicles to be introduced, and a market to be developed for these products over the medium to long term. A large number of investors can participate in the real-estate market through these investment vehicles. This should enable the financial sector to attract greater share of savings in the economy as well. Indeed, REITs have been a successful real-estate investment model in the developed markets.

3. FDI a huge positivefor insurance

The government provided a big thrust to the growth prospects of the capital-intensive and under-penetrated insurance sector by increasing the foreign direct investment (FDI) cap to 49% from 26%. This move will also help existing Indian investors release part of their capital invested in the sector.

There are currently 24 non-life insurance companies and 28 life insurance companies in India. Together, they have underwritten gross premiumaggregating nearly Rs.3.6 lakh crore during 2013-14. As per CRISIL estimates, the increase in FDI cap can potentially bring in an additional capital of around US$2.5 billionover the next two years in the sector. This will help improve the growth prospects of insurance companies in medium term. For this, however, a change in legislation will be required.

4. PSBs' large capital needs acknowledged, but little given

Budget highlighted that the equity capital requirements of PSBs are large at Rs.2.4 lakh crore by 2018, primarily arising due to implementation of the Basel III norms. It has also suggestedraising capital from public,while retaining the majority ownership with the Governmentof India (GoI).

However, the allocation for capital infusion in PSBs was maintained at Rs.11,200crorefor the year 2014-15, as announced in the interim budget. This is contrary to industry expectations of an increase in the amount,particularly since an averageof nearly Rs.15,000 crorewasinfused annually over the past four years.A higher allocation could have provided greater comfort to the stakeholders.

Another area that we would have liked to see progressis the development of Indiandebt market for raising the non-equity Tier I capital instruments by banks. CRISIL believes the non-equity Tier I capital requirements during the Basel III implementation process over the next five yearswill be Rs.1.4 lakh crore. Banks will face difficulties in raising non-equity Tier-I capital, as these instruments carry higher risks, given their equity-like features (such as discretion on coupon payments and likelihood of coupon non-payment and principal loss if bank's equity capital falls below pre-specified thresholds). Inability to raise sufficient quantum of non-equity Tier I capital will lead to a corresponding increase in equity capital needs.

5. New DRTsto come up, but NPA challenge to remain for banks

One of the ways in which recovery from banking sector's NPAs can be enhanced is by strengthening the debt recovery tribunals (DRTs) and the recovery infrastructure. The Reserve Bank of India's Framework for Revitalising Distressed Assets in the Economy highlights a need to create additional DRT centres. The budget announcement towards setting up of six new DRTs is a step in the right direction. However, this alone may not be enough and an additional focus is needed on enhancing the efficiency, effectiveness, and functioning of the existing DRTs.

The budget announcement towards setting up of six new DRTs is a step in the right direction. However, this alone may not be enough and an additional focus is needed on enhancing the efficiency, effectiveness, and functioning of the existing DRTs

6. Blow for debt capital markets, despite sops to foreign investors

Budget provides several ideas to enhance participation of global investors in the Indian debt capital market. Two key provisions announced were:

- Permission grantedfor international settlement of Indian debt securities
- Extension of concessional withholding tax rate of 5% on interest payments for borrowings in foreign currency to all categories of bonds, which will lower tax liability of foreign investors

This will broaden and diversify the investor base in the Indian bond market over a period of time.

Despite this, the budget was largely

negative for the domestic debt market in the near to medium term. Steps taken to remove the tax arbitrage between fixed maturity plans and fixed deposits will lower flow of investible funds into debt market instruments such as commercial papers. In the budget, the long-term capital gain tax rate on debt mutual funds was increased to 20% from 10% and minimum holding period on these instruments was increased to 36 months from 12 months to avoid short-term capital gain.

7. Securitisation market left in the lurch

The securitisation market, worth nearly Rs.42,000 crore in 2013-14,is a critical element of India's debt market. This market was impacted last fiscal due to the introduction of distribution tax on trusts set-up for pass-through certificates (PTCs). As a result, banks, whichwere dominant investors in PTC transactions, pulled back (amount of PTC transactions declined in 2013-14).

Clarity on this count was expected and this could have helped revive securitisation market volumes this fiscal. A vibrant securitisation market in the country can help the Indian banking system address the large capital requirement for Basel III implementation.

8. Fresh initiatives will expand access to banking and capital markets in the longrun

The budget proposal to aim towards two bank accounts per householdwill expand access to India's banking services to the weaker sections of the society. This is a critical priority for the country. CRISIL Inclusix, developed by CRISIL, is an index that measures India's progress on financial inclusion. A CRISIL Inclusix score of 42.8 as at March 2012 (on a scale of 100) reflects significant under-penetration of formal banking system in the country. At present, only one in two Indians has a bank savings account and one in seven has access to bank credit.

Further, introduction of uniform know-your-customer (KYC) norms, inter-usability of KYC records across the financial sector, and ability to use one single operating demat account for transacting in all financial assets,will enhance retail participation in the capital markets and reduce operational bottlenecks.

Pawan Agrawal
Senior Director - Ratings
CRISIL Limited

Pawan joined CRISIL in 1995, and has held a variety of roles during his long career.

In his current role, Pawan leads a team of analysts that rates large Indian companies in manufacturing, infrastructure, financial, and structured finance sectors. His key responsibilities include ensuring consistency in ratings, managing client relationships, enhancing CRISIL's franchise through thought leadership & outreach, and formulating business strategies.

Earlier, Pawan has led the operations at CRISIL's Global Analytical Center (GAC), which provides support to Standard & Poor's global analytical and data teams in enhancing workflow efficiencies, undertaking high-end analytical research, and executing complex modeling assignments. Pawan has worked closely with S&P to grow the scale and diversity in the range of services offered by GAC.

Pawan gained international exposure through his rotation to Standard & Poor's Singapore office. In this role, he led a team of analysts responsible for all corporate and infrastructure ratings for S&P in the South and Southeast Asia region. Pawan is also a board member of the Caribbean Information and Credit Rating Services Ltd (CariCRIS), a regional rating agency based in Port of Spain. Pawan Agrawal is a member of FICCI's Banking and Financial Institutions Committee.

Pawan holds a post graduate diploma in management from Xavier Institute of Management, Bhubaneshwar and an engineering degree from the Malaviya National Institute of Technology, Jaipur.

Healing the spirit of the Nation

Mr. Vikas Khemani
President & CEO, Edelweiss Securities Limited

People of India have given a historic mandate to the new government, not seen in last 3 decades largely on the hope of better governance and unshackling the economy from the grip of extreme pessimism. It is only natural, therefore, that expectations from the new government know no bound. As it happens, just as the challenge is tremendous, the opportunity is no less. It is apparent that reversing the stagflationary environment of low growth and high inflation is going to be a herculean endeavour but the historic nature of the political mandate has armed the new government with immense political capital to undertake tough decisions. It is against this backdrop that the Finance Minister presented the first Budget of the new government. It was eminently sensible of the Finance Minister (FM) to start his speech with a reality check - economic situation presents a serious challenge and steps announced in this budget are only a beginning. It is in this context that the Budget should be judged.

Let us start with the broader fiscal consolidation strategy. Two years ago the fiscal deficit was precariously approaching ~6% of GDP, jeopardizing macro-economic stability. The government was forced to undertake sharp fiscal squeeze through ad hoc cuts in plan expenditure. While this strategy served well in more urgent times, it was time to review it. The Union

It is apparent that reversing the stagflationary environment of low growth and high inflation is going to be a herculean endeavour

Budget brought focus on growth back into the fiscal consolidation strategy as opposed to a single minded focus on fiscal austerity in the last 2-3 years. This is a welcome move, well-suited to the current state of the economy. For example, the allocations for the plan expenditure have been increased by more than 25% YoY, thus ending the squeeze of last two years. However, the FM has put out an aggressive fiscal deficit target of 4.1% based on ambitious tax revenue targets, thus, running the risk of slippages. In such a scenario, what will be critical to watch is that down the line, once it becomes apparent that tax revenues are weaker than expected, would the FM hold 4.1% target sacrosanct and cut expenditure (like UPA) or will he be a bit more growth oriented and let fiscal target slip a bit? In my view, mild slippage on fiscal target should not be concerning. Indeed, I would argue that incrementally, fiscal consolidation should be led by improvement in tax revenues rather than sole dependence on cuts in plan expenditure. The FM seems to be sympathetic to that view, but we have to wait and see.

Outside the fiscal math, there are several aspects of the Budget that needs highlighting. First the government is clearly looking to boost the supply side of the economy by focusing on areas such as irrigation, rural roads and highways, smart cities, skill development, manufacturing among others. In coming months and quarters, we are likely to get more flavor of the likely policies in these areas. But for now, the budget has stressed on the importance of execution rather than announcing ambitious schemes. This was no different in Railway Budget, where the focus was to execute what has already been planned and not stretch the resources of railways too thin by announcing new projects. After all, out of the total 676 projects announced in last 30 years, only 317 have been completed so far. The focus on execution clearly stands out in the

Union Budget as well. For example, for infrastructure sector, government seems to be following a cradle to grave strategy by tying loose ends - generating demand through higher plan outlays, encouraging private participation through REITs/liberal FDI policies and addressing long-term funding issues through SLR/CRR holidays, recasting PPP guidelines, among others. This along with hassle free administrative structure (the hallmark of Modi's way of governance), completes the eco-system conducive to faster implementation of infrastructure projects.

Second, the Union Budget took on the task of setting the path right for the economy over the medium-term so that the economy is prepared to sustain the next phase of growth. This government seems to be very conscious of the fact that last phase of the economic growth did not generate adequate jobs. Therefore, manufacturing and construction sectors have been given a lot of focus. Start with liberalization of FDI in the defence sector. India is short of capital and technology when it comes to modernization of defence. FDI will assist in both while kick-starting the domestic auxillary manufacturing units. More importantly, the FM took the task of fixing the inverse duty structure in many areas of manufacturing. Inverse duty structure discourages domestic manufacturing while favouring imports of finished goods. The Budget rationalized the duty structure in several industries - chemicals, petrochemicals, electronics etc. For example, in case of electronics (where India imports ~USD30bn worth of goods annually), the FM has reduced the duties for TV panels, picture tubes so that domestic manufacturing can be boosted. Taken together the measures for defence and manufacturing, if complemented with other requisite policy support, will help cut India's imports over time.

Similarly, in order to boost the construction sector, especially real estate, the FM has given push to real estate investment trusts (REITs) by allowing pass-through of the taxes. At the same time, tweaking the minimum built-up area guidelines in the construction will make it more attractive for foreign direct investment. This is crucial because construction and real estate have multiple backward and forward linkages in the economy and therefore can create a virtuous circle. On infrastructure, easing the burden of preemptive regulations (CRR, SLR) on the banks issuing long-term bonds for financing infrastructure is also a welcome move as it will ease cost of funding for infra projects. In addition, allocating INR7000 cr towards building 100 smart cities also

shows that government accords high importance to urbanization.

The list does not end here. Indeed, extension of tax holidays for the power sector, tackling the issue of tax litigation, among others are also very timely move towards invigorating business sentiments and kick-starting the investment cycle. But even as reviving growth was the major focus area of the budget, the FM did not ignore the issue of tackling inflation. In fact, tackling food inflation was one area where the government started undertaking measures much before Budget to preempt any sharp spike in inflation due to weak monsoon. In the Budget as well, push for creating national agriculture market by working with states to amend the APMC Act, restructuring of FCI, promoting agriculture research were some of the areas where FM stressed.

The common man was also not missed out. Raising the tax slabs, hiking the investment limit under 80C to encourage long term savings and increasing deduction limits on housing loan interest to promote housing shows government's commitment to reviving sentiments even when the fiscal situation is stretched.

One or two areas, where insufficient attention has been paid or where the FM could have been more forthcoming are issues of subsidies and goods and services tax (GST). Both these issues are long-pending and there were widespread expectations that budget is going to announce some concrete roadmap. On the subsidy front, given the immense political capital the government has and the fact that in the run-up to the Budget, PM had talked about the need for a bitter pill, one would have expected that budget will take the subsidy rationalization process to the next politically difficult level of LPG, fertilizer etc. The FM was silent on the same. Similarly, on the GST front, it is well-known that compensation to the states for loss of revenues due to reduction in CST is one of the main contentious issues between the Centre and the states. However, the FM did not make any allocation towards compensation to states in the Budget, although in his media interviews post the Budget speech, he stated that GST is his top priority.

While many are seeing this as lack of ambition and political will, I consider this as an issue of sequencing of reforms. It is critical that sequencing is done in such a manner that issues of least resistance and maximum impact are tackled first. Raising LPG and kerosene prices when inflation is already threatening to rise (amid weak monsoon) and petrol, diesel electricity and railway fares already moving up could have hurt people and also strengthened the hand of opposition to mount a concerted attack on reforms.

The FM did not make any allocation towards compensation to states in the Budget, although in his media interviews post the Budget speech, he stated that GST is his top priority

Therefore, I have no doubt what needs to be done, will be done. It's a beginning of a journey as FM put it. The drift of last few years has ended and we have started to swim again. Can anything go wrong? Surely, untoward geopolitical events, outright failure of monsoons, unfavourable turn in the global economy are the issues on which one can only keep one's fingers crossed. After all, the former British Prime Minister Harold Macmillan in late 1950s when asked what can blow his government off course; he said, "Events, dear boy, events"!!

Vikas Khemani
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Vikas Heads the Wholesale Capital Markets SBU at Edelweiss Financial Services, looking after wide range of Capital Market businesses which includes Investment Banking, Institutional Equities, Prime Brokerage and Research. Vikas is also member of the Edelweiss Management Committee and became the youngest member of this committee at the age of 30.

Joining Edelweiss from ICICI Securities Ltd, at a young age of 26 – Vikas is responsible for setting up the Alternative Investment & Derivatives Desk and scaling the Institutional Equities to the leadership position at Edelweiss.

Vikas' views on the Indian capital markets are eagerly sought by the business media in India and Asia Pacific region. He also regularly contributes articles on capital markets and speaks in various forums.

Reactions To The Union Budget 2014-15

Mr. Kshitij Jain
MD & CEO, Exide Life Insurance Company Limited

Something for all

The first NDA government budget was high on expectations. While expectations are generally hard to match, the government and the finance minister did manage to hold fort. The government faced the reality of presenting a budget with little over a month in office and with 4 months gone in this financial year. Although it had little room to come up with big bang reforms, the budget did manage to spell out a clear vision and direction--focus on growth by being inclusive. Take for instance, the announcements to propagate skills, agriculture, 100 high-tech cities, push to several sectors in the economy, infrastructure projects and more; the idea is clearly for collective growth for not just all strata of the society, but also the entire geography of India from East to West and North to South.

Moreover, there was nothing negative in this budget, but there were several measures that would boost the major stakeholders in growth of the economy--corporate, markets and every citizen. The promise of less government and more governance was indicated in the budget documents. There was enough stated for the economy

The big announcement revolved around boosting public-private-partnership and infrastructural development

to rebound growth, revive investor and consumer sentiment and resolve the structural bottlenecks plaguing the economy. What is noteworthy is that all the announcements made by the finance minister did not elicit any provocation among the opposition or disenchantment among his own allies.

The big push

Some of the big ticket items that found mention in the budget include higher FDI in insurance and defence. There was also mention to FDI in healthcare and eCommerce. The big announcement revolved around boosting public-private-partnership and infrastructural development. The minister allocated Rs 500 crore for 3P India, a new institution being proposed as an agency that will re-craft and renovate the public private partnership model (PPP). This step will act as the catalyst to boost growth in the infrastructure sector and pave way to de-bottleneck infrastructure projects that have been slow or stalled.

The minister stated that India had emerged as the largest PPP market in the world, but there was also the need to develop more sophisticated models with quick redressal mechanism in the contracts. New projects worth thousands of crores, based on the PPP model, were announced in the Budget with the most prominent ones being the 15,000 km gas pipeline infrastructure--a new gas grid that will allow access to domestic and imported gas - new airports and roads, renewable energy projects, convention centres and facilities for tourists.

Further by stating that banks will be encouraged to give long-term funds and loans to the infrastructure sector; the future of the sector and its allied areas will have a lot to benefit. Incentives on easier lending will also help the power and infrastructure sectors that are in urgent need of revival. Further, by untangling coal linkages and assuring coal supply, thermal power will revive and find takers.

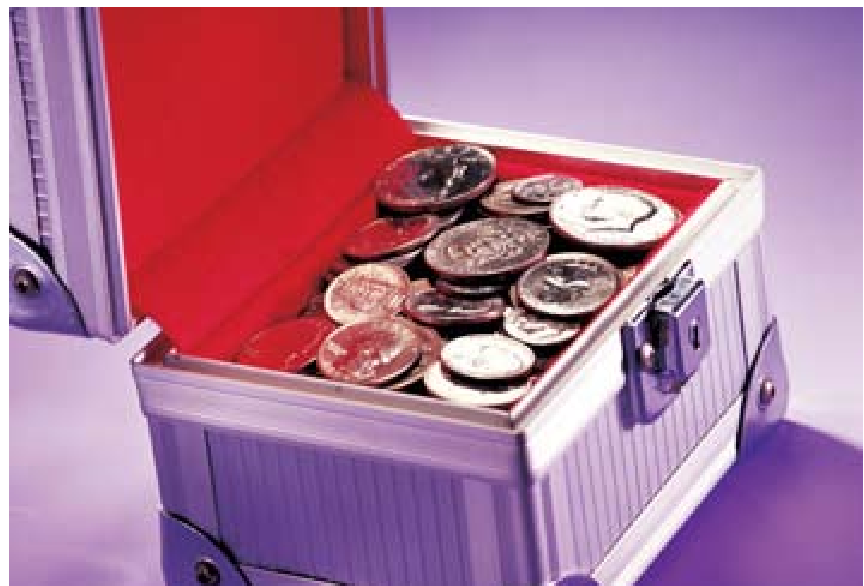
Investments in roads got a massive shot in the arm with the government virtually doubling last year's outlay for roads. The finance minister has allocated Rs 37,800 crore for NHAI and state highways apart from an increase in allocation for the Pradhan Mantri Gram Sadak Yojana (PMGSY). These two announcements should see highways coming on their own and the completion of the diamond quadrilateral which has been planned for some time now. The impact of linking rural and urban centres with quality roads will also give shot to access to employment and add to growth in the economy.

Relief for taxpayers

All taxpayers have something to cheer about; the finance minister increased the level of threshold exemption on income tax and deductions for the financial year 2014-15. So, for all those under 80 years of age, the exemption limit for FY15 is increased by Rs 50,000 to Rs 2.5 lakh and for senior citizens over 60 years of age, but below 80 years of age, it is Rs 3 lakh. For 80 years and above, the exemption limit continues to be Rs 5 lakh. The other benefit for taxpayers is the increase in the tax deductions that they can claim under Section 80C from the current Rs 1 lakh to Rs 1.5 lakh. Effectively, someone earning Rs 4 lakh will pay no tax if they utilise the Section 80C deductions.

So, effectively considering the increase in the basic exemption limit and Section 80C benefits, at the lowest tax bracket of 10 per cent, the savings would be Rs 15,450, in the 20 per cent tax bracket it will be Rs 25,750 and Rs 36,050 at the highest tax bracket of 30 per cent. The budget does leave more money in the hands of the taxpayers, which can be used to wade off the inflation blows and also benefit from savings that would pay richly later.

There is more good news, the monthly pension from EPFO under the EPS-95 scheme is increased to Rs 1,000. Until now, people with monthly wage of Rs 6,500 could subscribe to the EPFO schemes, but with this budget this limit has been increased to Rs 15,000 which means more people can benefit from EPFO's social security schemes. Moreover, tax exemption on interest component of housing loan has been raised from Rs 1.5 lakh to Rs 2 lakh. Similarly, the annual PPF ceiling has been enhanced from Rs 1 lakh to Rs 1.5 lakh.



Few other developments from the budget can change the dynamics of personal finances for individuals. The single KYC could solve most of Indian investor's real-world problems. 'Know Your Customer' (KYC) norms has been followed differently by different sections of the financial services industry. It is for this reason that many have to undergo repeated KYC exercises by banks, brokers and other entities. Every time any authority makes a small rule change, entities under that authority set off to conduct fresh KYC on their entire customer base. This budget does bring some relief by stating that a single KYC will suffice for all financial transactions.

Likewise the move to have a single demat account will also help people safely keep their financial investments. This move, once it is implemented will pave the way for one single operating demat account so that Indian financial sector consumers can access and transact all financial assets through this one account. Once operational, this account will also eliminate the problem of lost and untraceable investments.

On the flip side, individual tax payers will find the new long term capital gains tax on debt funds to be a painful affair. The budget announced an increase in the long-term capital gains on debt mutual funds from 10 % to 20%, with their tenure increased from 1 to 3 years. This will have some serious impact on people who are in higher tax brackets, you have to stick with your plans so that you save on taxes. Moreover, insurers will deduct tax at source of 2 per cent from maturity proceeds of a life insurance policy if the premium paid is more than 10 per cent of the sum assured (or where Section 10 (10 D) doesn't apply).

Opening up FDI

While the budget announcement does open several avenues for foreign investments into India. In particular

the increase in FDI in the insurance sector from the current 26% to 49% per cent with the management and control of the company to be with the Indian partner. This is one sector which is capital intensive with a long gestation period. The changing financial world had almost dried capital infusion into the sector by Indian promoters. Several global players held back their investments as well as exited India in the last few years owing to pressures in their backyards.

The insurance industry not only protects human life but is also a key resource for raising funds for the country's infrastructure. According to the 12th Plan, India needs to spend about $1.2 trillion on infrastructure build-up and expansion, and there's almost a $300 billion gap in funding. Increasing FDI in insurance is one way of meeting this shortfall, especially since money in insurance stays in the country and is for the long term and can be better utilized for infrastructural development, which should give the necessary nudge for growth of the economy.

This increased inflow into the insurance sector will pave for the revival of the sector, which has witnessed several regulatory changes over the past five years. While companies will be able to bring in investments, they will also benefit from the enhanced tax deduction level under Section 80C, which will make insurance a tax saving instrument not to be missed. There will be growth in the sector from period of stagnation and even de-growth that was witnessed in 2010-2011. In fact, this could herald the second wave in the sector, something akin to what it did in 2000-2001 when the sector was first opened.

The spill-over effect will impact several sectors: infrastructure, the bond market, long-term capital in equities leading to wealth creation, employment and more. The move will also encourage foreign partners to rethink their strategy on India and bring in new products and services, benefiting the insurance sector as a whole. There will be product innovation, distribution and in building robust customer service mechanisms.

The higher FDI also opens up the possibility of promoting the much needed penetration in the pension sector. Insurance intermediaries will be incentivised with increased capital flows, which will benefit newer insurance companies and strengthen the older ones. There could also be realignment in the sector with mergers or change in promoter holdings, which

will strengthen the sector. All these issues will only be for the better of policyholders as well as the securities markets in India given the tight regulations within which insurance functions in India.

In all this was a budget that was truly inclusive with something in it for everyone and with nothing negative about it. Given the challenging times that we live in, this move in itself should give the much needed confidence to businesses for them to invest and propel growth in the economy. I look forward to more such vision-oriented budgets from this Government, which would need the execution stamp to pave way for all inclusive growth for India.

Kshitij Jain
MD & CEO
Exide Life Insurance Company Limited

Kshitij Jain is the Managing Director & CEO at Exide Life Insurance Company Limited (Formerly ING Vysya Life Insurance Company Limited). He joined the Company as a founding team member in Dec '2000 and was initially responsible for leading sales and distribution. He was promoted as the MD & CEO of the Company in June 2006 and has been responsible for the many firsts that Exide Life Insurance has brought to the Indian Life Insurance Market. Under his leadership, Exide Life Insurance has become an established and profitable company serving over 10 lakh customers in over 200 cities in India. Prior to joining Exide Life Insurance, Kshitij spent 10 years at Xerox in various roles in Sales and Marketing.

Prior to joining Exide Life Insurance, Kshitij spent 10 years at Xerox in various roles in Sales and Marketing.

He is a graduate in economics from Sri Ram College of Commerce, University of Delhi and has completed his Advanced Management Program from Wharton Business School, University of Pennsylvania, Philadelphia, USA.

Reactions To The Union Budget 2014-15

Budget with right intent & priorities

Dr. Naresh Maheshwari
Chairman of Farsight Group & National President of DPAI

The much anticipated general budget of the newly-elected government is finally out, addressing several issues. This Union budget includesalmost all the items listed in the manifesto which shows the government delivering on the election promises. This budget truly resonates with the government's vision of bringing back optimism and investor confidence while keeping an eye on the fiscal deficit. The budget clearly signals the new government's intention to drive the next generation of reforms and swiftly put India on a higher GDP growth path.

It has provided key sectors like agriculture, manufacturing and infrastructure with impetus and incentives to pursue growth. It has spelt out its commitment to public-private partnerships to drive investment and encouraged retail savers to invest more in debt and equity. The budget speaks positively to further develop quality higher education and encourage skill development programs.

It is heartening to note that the budget has provided the right direction on ubiquitous use of technology for inclusive growth, enhancing the education ecosystem, promoting a tax regimethat is stable and growth oriented, focus on the start-up ecosystem and greater impetus to the manufacturing sector.The fact that India's transformation has to

The manufacturing sector will get a boost with the plan for new industrial clusters, 16 ports, setting up Smart Cities with a corresponding allocation of 7,000 crore and a 15,000km-long gas pipeline

be powered by technology is well recognized by the Government and has been articulated in the various initiatives in the Budget. This budget sets the stage for higher growth on strong fundamentals of manufacturing and infrastructure sectors, built on the backbone of technology.

The budget 2014-15 focuses clearly on growth, development and job creation with particular focus on infusing growth in manufacturing and infrastructure sectors. From industry perspective, the policies that would have major positive impact on the domestic IT uptake are: 'Digital India' program; "Good Governance"; and "one hundred smart cities" program. Also, FDI cap increase in defense and insurance sector is a huge positive and has direct bearing on IT industry. Banking and Manufacturing are the two main sectors for the IT industry. The slew of measures announced to strengthen and expand both these sectors is welcome news and will encourage IT consumption, which together constitute 40% of the market, over the next few months. An addition of even 5% of IT spending growth here means a boost of Rs. 1000 Crores for industry.

The budget has tried to provide clarity on some long-pending issues in transfer pricing, holding of residential house for exemption from capital gains purpose, taxability of trade advance received and forfeited, treatment of FII/FPI income as income from capital gains, etc. It offered a collaborative framework to minimise future disputes. Amendments in advance rulings, tax settlement mechanisms and APA (advance pricing agreements) etc. will contribute to improving investors' confidence. The amendments in explanation to section 73 of Income Tax Act, 1961, and to clause (e) of the proviso to the said clause (5) of section 43 of Income Tax Act, 1961, will give a new dimension to Indian securities market making it more conducive. Above all, the government has strongly signaled that more reforms across sectors will come shortly. Although some of the announcements like new method of dividend distribution tax or taxability of fixed maturity debt fund may dampen the financial market bonhomie.

Significant encouragement has been provided to domestic manufacturing, through various measures such as opening defense, insurance, and e-commerce sectors to FDI, correcting inverted duty structures, setting up of industrial clusters and promoting entrepreneurship that will likely enhance both local production and employment, especially in the sectors of retail and e-commerce. The manufacturing sector will get a boost with the plan for new industrial clusters, 16 ports, setting up Smart Cities with a corresponding allocation of 7,000 crore and a 15,000km-long gas pipeline. The allocation of funds in building Smart Cities and the decision to set up Industrial Smart Cities is very encouraging. The steps taken to help local technology manufacturers and the focus on entrepreneurship are steps in the right direction and we hope that the local ecosystem seizes the opportunity to customize solutions to take technology to the grassroots.Proposed investment allowance of 15 per cent for new investments over and above Rs 25 crore will be a welcome announcement by the auto industry making the companies eligible for an additional deduction on income tax by way of investment allowance of 15 per cent, provided there's investment of Rs 25 crore. Lowering investment cap from the earlier Rs 100 crore to Rs 25 crore will give a boost to auto manufacturers as well as component manufacturers looking at expanding operations and is likely to be welcomed by manufacturers for installation of new plants and machinery. Overall, the investment allowance will help restore industry confidence in fresh investments.

Liberalisation of FDI in e-commerce sector will provide much-needed certainty to foreign players and to a sector that has the promise to provide increased commerce and generate employment in the country. This will also provide boost to the sector and create healthy competition so as to benefit all the constituents in the ecosystem – consumers, government, e-Commerce players, and retailers in general. The increase in investment limits in FDI (foreign direct investment) announced in the 2014 budget will favorably impact the economy. The insurance sector is investment starved. Several segments of insurance sector need expansion. The composite cap of the insurance sector is proposed to be increased to 49 per cent from the current level of 26 per cent with full management and control through the FIPB route. The move would help insurance firms to get much needed capital from overseas partners.

The proposed single demat account for investors across complete financial sector and uniform KYC (Know Your Customer) norms with inter-usability of the KYC records will certainly help the investors to access and transact all financial assets with ease. Not only the paper work and multiplicity of registration of documents would be reduced but it will also help in attracting more investors. Availability of entire financial data at a single point will improve governance and complete audit trail of transactions will be available.

The introduction of REITs will provide access to capital markets for

The budget, if implemented appropriately, will foster economy's growth momentum, making it easier for businesses to operate

income generating real estate, creating a new financial asset and providing an exit route for those investing in the development of these assets. Further the Pass-through status to REITs is a big positive for this cash-starved sector, which was eagerly awaiting clarity on taxation of Real Estate Investments Trusts or REITs. As we all know, the success of the REIT market here has added depth and breadth to Singapore's capital markets with its market capitalization in excess of US$65 billion. Jobs have also been created for REIT and property players, bankers, lawyers and other professionals in Singapore.It has also provided investors in Singapore with an alternative investment mode - one that promises a tax-efficient, stable, and regular return on their investment.

Outlays for as education related initiatives and the funding model resonate well with the country's growth plans. This set funding for adding new top-notch educational institutions such as the IITs and IIMs in various cities, which is likely to have a long term impact on generating technical and management talent.

Considering the inflationary trends in the economy, a substantial increase in the Income tax slab was expected. Increase in basic tax exemption limit for individuals and senior citizens with a resultant rise in disposable income, and enhancement of 80C limit and PPF limit will help the individuals to save more in tax free income investments

This budget envisages using ICT to deliver services to citizens as well as furthering the growth of other sectors like the Railways. Setting aside of funds for the Digital India program to ensure broadband connectivity at the village level and in facilitating transparent governance is a step in the right direction and we applaud the government for the same. It is very heartening to see that the government's commitment in ensuring ubiquitous connectivity, digitizing of land records and moving to a paperless office in five years.

The announced budget clearly presents road map, made with pragmatic choices around available resources, articulated towards reducing the fiscal deficit and fueling economic growth. The budget, if implemented appropriately, will foster economy's growth momentum, making it easier for businesses to operate.

Hence it can be safely concluded that this is a very progressive budget with the right intent and priorities though devoid of any big bang announcement.

Naresh Maheshwari
Chairman of Farsight Group & National President of DPAI

Dr. Naresh Maheshwari, FCA, FCS, FISA, doctorate in options trading, is Chairman of Farsight Group, a well known broking house of India. He is a prolific commentator on matters pertaining to Capital Market, Investors Protection and Corporate Laws in electronic and print media.

Dr. Maheshwari has been associated with many trade bodies. Founder and Past President of Commodity Participants Association of India (CPAI)and Past President of Association of National Exchanges Members of India (ANMI). Former chairman of ASIA forum for Investor Education (AFIE) , South Korea.He is presently National President of DPAI and member of Secondary Market Advisory Committee, SEBI.

He has visited and represented Indian capital market in many international organizations like KOFIA Korea, ASC Thailand, MAS Singapore, various stock exchanges at Hong Kong, Shanghai (China), Korea, Bursa Malaysia, Osaka, SMX etc.DrMaheshwari also led Indian capital market delegation to Asian Securities Forum at Beijing and Tokyo. He has been observer in ICSA (International Council of Securities Associations) AGM-2011 at London and ICMA (International Capital Market Association) AGM-2011 at Paris.

A hand book for Investing & Investor Protection authored by Dr. Maheshwari published by Institute of Chartered Accountants of India.

Growth oriented budget with Implementation being the key to success

Mr. Ritesh Kumar
Managing Director and CEO,
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The new Government which has been in office for just about fifty days came into the budget with a lot of expectations, given the decisive mandate obtained by them in the Lok Sabha elections. The budget expectations were largely built around fiscal situation, taxation issues (clarity on international taxation, GST etc), revival of investment cycle, special focus on Infrastructure, FDI, job creation & skill development and boosting consumption. In this budget, the Finance Minister (FM) has taken numerous steps to address various constituencies which got this Government into office. A lot of expectations have been addressed in varying degree and one expects the others to be addressed over the coming 12 months.

Fiscal Consolidation

The fiscal deficit at 4.1% of GDP announced by the previous Government has been retained – it does seem to be very challenging given the low GDP growth, static industrial growth, increase in subsidy burden and not so encouraging tax buoyancy. Unfavorable progress in monsoon so far also has the potential to dampen

A lot of expectations have been addressed in varying degree and one expects the others to be addressed over the coming 12 months

agricultural growth and in turn, rural demand in the next 6-9 months. While the budget has proposed a number of measures to boost manufacturing and consumption, revenue growth at 20% appears optimistic. Further, the Government has announced a road map to reduce the fiscal deficit to 3% by 2016-17. These are indeed very optimistic targets that the FM has undertaken and one can clearly see the priority and criticality that this Government is attaching to these. The proposal to constitute an Expenditure Management Commission to focus on improving the efficiency in spending is a step in the right direction. Clarity on this will be known going forward.

Taxation matters

FM made the announcement of a stable and predictable tax regime which will be investor friendly and spur growth. The need to be extremely cautious on retrospective legislation was emphasized. For the past cases, the setting up of a high level Committee was announced to ensure fair play. On GST, FM announced that he would work with the State Governments to implement GST by end of this year.

Foreign Direct Investment

The budget announced increase in FDI in insurance and defence. On insurance, the announcement to take up FDI to 49% is addressing a long standing demand of the industry. The Insurance amendment bill, which has been pending for the last five years, may finally get passed. Government has proposed that the composite cap would be increased to 49% from 26% with Indian Management and control through the FIPB route. More clarity is required on "composite cap", "Indian Management and control" and "FIPB route". On all these three elements, we expect the operative guidelines to be announced by the Government and IRDA in due course. Increase in the FDI

limit and a favorable capital market could see insurance companies going public and / or allow the joint venture partners to increase stake. This will also potentially attract new foreign players to the market. The Insurance bill proposes many important changes to the Insurance Act 1938 relating to Capital Structure, formation of new reinsurance companies, Motor Third Party business, Agency business, Surveyors & loss assessors, governance norms, Appellate Authority etc.

FDI limit in defense sector is also proposed to be increased to 49%. India is a large importer of defense equipments. The increase in FDI limit is expected to give more impetus to local manufacturing of defense equipments leading to more job creation. Defense sector has been a supplier of cutting edge technology to other sector and local manufacturing also saves foreign exchange reserves for the country. One would ideally have liked to see a 51%+ limit which would have perhaps helped technology transfer faster.

Infrastructure development

The new Government has articulated many infrastructure development projects that would be undertaken in the next five years. In this budget, funds have been allocated to "one hundred smart cities" project, Shyama Prasad Mukherji Rurban Mission for integrated project based infrastructure in rural areas, Deen Dayal Upadhyaya Gram Jyoti Yojana for feeder separation to augment power supply to the rural areas, Pradhan Mantri Gram Sadak Yojana, Krishi Sinchayee Yojana for assured irrigation etc. A very note worthy aspect is the creation of a Fund of Funds with a corpus of ` 10,000 crores for providing equity through venture capital funds, quasi equity, soft loans and other risk capital specially to encourage new startups by youth. Creation of more infrastructure assets will give much needed growth impetus to general insurers.

Financing infrastructure projects has always been a challenge for the banks. The budget talks of Banks being permitted to raise long term funds for lending to infrastructure sector, with minimum regulatory pre-emption such as CRR, SLR and priority sector lending norms. Among other proposals, two noteworthy items are a) REITs to finally see the light of the day and b) enlarging the present corpus of Pooled Municipal Debt obligation to ` 50,000 cr from ` 5,000 cr. It is expected that REITs would attract around $ 5-6 billion and

growth in real estate would translate in higher economic growth, given its high multiplier effect in the economy.

Boosting consumption

With a view to boosting consumption and making long term funds available, the budget has increased basic exemption limit, increased investment limit under section 80C to ` 1.5 lacs from ` 1 lac and raised the tax deduction on interest on housing loans to ` 2 lacs from ` 1.5 lacs. Every one of these measures gives relief to the aam aadmi who has been reeling under high inflationary pressures for the last 3-4 years. Measures such as setting up of price stabilization fund and higher budgetary allocation to rural infrastructure and warehousing will help remove bottlenecks and perceptibly improve the supply chain. Implementation of a second green revolution to increase productivity will not only leave more money for the agricultural sector but also bring down the supply side led inflation.

Job creation and skill development

The budget gives a thrust to expansion of labour intensive sectors such as textiles, tourism, food processing, construction (mainly roads) and small and medium enterprises. The labour intensity of textile sector is 12.8 which means 13 workers to produce ` 10 lacs of real output. The Government proposes to set up 6 mega textile clusters around the country and has allocated 330 crores. Similarly the construction sector is another large scale employer with a labour intensity factor of 12.2. Given weaker monsoon, above measures if implemented quickly could give boost to the non-farm incomes. In the service sector, trade, hotels and restaurants have a labour intensity of 5.9. The proposed e-visa facility and creation of 5 tourist circuits and the launch of HRIDAY (National Heritage Development and Augmentation Yojana) will give impetus to the tourism sector and travel policies would see increase in demand.

The country needs to create about 10 million jobs annually. Skill development is an important contributor towards the stated objective of creating more jobs. The "Skill India" program is being launched that will impart skills to the youth with an emphasis on employability and entrepreneurial skills. Further, a "Start up Village Entrepreneurship Program" has been proposed for encouraging youth to take up local entrepreneurship programs. In higher education and healthcare, IIMs, IITs and AIIMS-like institutions are proposed to be set up in many more states along with 12 new Government medical colleges.

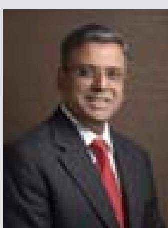
Investments in capital market

The FM has proposed introduction of uniform KYC norms and inter usability of the KYC records across the entire financial sector and introduction of one single operating demat account. This is definitely a move that will remove a major irritant for buyers of financial products and facilitate operational efficiencies for financial services companies.

Today, the ratio of insured losses to economic losses in the country out of any major calamity is sub 10 percent and higher take up rate would significantly help in the rehabilitation process post disaster, which today falls entirely on the Government

Going forward, we expect more concrete measures to be announced by the FM which will spell out the road map for implementation of these measures. One is also of the view that certain demands of the industry which the FM has been unable to accommodate given the tight fiscal balancing that was required, may be taken up in due course by the new Government. One of these would be to encourage buying of risk mitigation products including home and small property insurances, which will help take up insurance penetration. Today,

the ratio of insured losses to economic losses in the country out of any major calamity is sub 10 percent and higher take up rate would significantly help in the rehabilitation process post disaster, which today falls entirely on the Government. In some global economies, it has been observed that mandatory buying of home insurance has resulted in home insurance penetration rates moving up to about 25% from 3-4% level resulting in significant risk mitigation. Secondly, measures such as increasing tax benefits to health insurance buyers and mandating all corporate to cover their staff for healthcare needs would help increase penetration of health insurance and contribute significantly towards the Prime Minister's vision for achieving "Heath for all".



Ritesh Kumar

Managing Director and CEO, HDFC ERGO General Insurance Company Ltd.

Ritesh Kumar is the Managing Director and CEO at HDFC ERGO General Insurance Company Ltd., one of the premier General Insurance Companies in India. He has over 22 years of experience in the Financial Services Industry, of which the first 10 years were in Banking and the last 12 years in Insurance.

Ritesh is a Commerce Graduate from Shriram College of Commerce, Delhi and holds an MBA degree from Faculty of Management Studies (FMS), Delhi. He started his career in 1992 as a Corporate banker. During his stint in Banking, he was involved in funding of projects across Manufacturing, Infrastructure and media sector. He was also involved in some of the earliest securitization deals in India. When the Insurance sector opened up at the turn of the millennium, he moved from Banking to the General Insurance industry. He joined his present company, HDFC ERGO in early 2008.

Reactions to the Union Budget 2014-15

Mr. Amitabh Chaudhry
Chair, FICCI's Insurance & Pensions Committee &
MD & CEO, HDFC Standard Life Insurance Company Pvt. Ltd

The Union Budget for FY15 was delivered amidst heightened expectations and significant macro-economic challenges both globally as well as closer home. The decisive political mandate and the run up in the capital markets meant that there was a clear pressure on the FM to deliver. The fact that the FM had limited fiscal headroom only added to the challenge. While there are a number of short-comings one can point out, I believe that the FM has risen admirably to the challenge and has presented a pragmatic budget and has taken the first steps for putting the economic growth on track.

The key question to ask is whether one should have expected more from a government which has come to power on the change plank and does not have to worry about its survival? My view is that given this is the first budget of the current government and the fact that the time available for preparation was quite limited, it would not be prudent to analyze the budget just on the basis of the limited proposals presented in the budget. What really matters is the longer term direction and implication of the budget proposals and government thought process. In my view, the overall policy direction is clearly supporting longer

Government is looking for an investment driven rather than a consumption led growth model for the country

term sustainable growth and the steps taken in the budget are clearly leading towards the same. While there are no big bang reforms in the budget, the longer term vision and intent of the government has been clearly spelt out by the FM. Primary focus is on improving infrastructure, spurring investment, boosting agricultural growth and developing human capital. Smart cities, new ports, water ways, airports in tier II cities, low cost housing, tourism, education, skill development and rural development are some of the focus areas of the government policy. There is intent to tackle the deep rooted macro-economic problems so that the aspirations of the people of India can be met. Also, it seems quite clear to me that government is looking for an investment driven rather than a consumption led growth model for the country.

The key message of the budget was that both growth and fiscal discipline are equally important and that the subsidies need to be rationalized. The FM has agreed to stick to the 4.1% fiscal deficit target for the current fiscal. We believe that this may be difficult to achieve but the intent and the roadmap for fiscal deficit reduction is a good step. The fiscal deficit target of 3.0% in two years time, while being ambitious is achievable. However, there were no specifics on subsidy reduction in the budget, which was disappointing. It would be important for the government to lay down a clear path for subsidy reduction and one hopes to see concrete action on this front in the days to come.

The key problems facing the country are falling savings rate especially the rate of financial savings, falling investment rate, high inflation, fiscal deficit and low investor confidence. The budget has tried to address all these issues in some measure.

The financial savings have been incentivized by increasing the limit on investments under Sec 80 C from Rs. 1 lakh to Rs. 1.5 lakh. The limit

on PPF investment too has been increased by similar amount. The tax slabs too have been relaxed although marginally and this too will be savings positive. The introduction of REIT's and infrastructure investment trusts are also steps in the right direction. These will not only encourage financial savings but will also help target the funds towards the fund deprived but extremely important sectors of real estate and infrastructure. Also, the FM has encouraged greater savings to be targeted towards banks and the equity markets by attacking the tax arbitrage enjoyed by debt mutual funds.

As far as investments are concerned, the FM has shown his resolve by raising FDI in defence and insurance. These are two large sectors which require high amounts of capital and can generate a large number of jobs. Moreover opening up of the defence sector encourages domestic manufacturing and helps from a current account perspective. There has been a thrust on infrastructure especially transportation. The plan outlay for roads has been increased by 13.5%. Banks have been allowed to raise funds for infrastructure without SLR and CRR requirements. This is a welcome step as it reduces the funding costs for infrastructure funding and at the same time helps address the asset liability matching issue for banks. In a sign of things to come, the budget has taken a number of steps to encourage entrepreneurship. A Rs. 10,000 crore venture capital fund has been proposed to be set up for providing equity and soft loans to start-ups. This is an important signal about the thought process of the government but one hopes that this idea will be executed well.

On the inflation front, the message was clear that high inflation is a hindrance to long term growth. The government has refrained from any populist measures and as mentioned earlier has tried to control fiscal deficit. It has been clearly identified that schemes like MGNREGA fuelled inflation as they were not used to create any productive assets. Going forward, the intent is to use the MGNREGA funding for rural asset creation and agriculture would be a more productive use of the funds and also would not cause inflation.

Some market participants and corporate have not been enthused by the fact that the FM did not do away with retrospective taxation. However, the FM has stated that such a tax will not be slapped randomly and all fresh cases of indirect taxation would be put up before a committee. I believe that this should assuage the investor com-

munity. However, one area where a greater clarity was both desirable and important was the goods and services tax (GST). However it was a touch disappointing that no concrete timelines were announced although a strong intent to implement it quickly was stated. GST is one of the most important reforms and the government would do well to get it implemented quickly.

Among other things, there is a lot of focus on skill development and enhancing human capital. Opening up of new IIT's and IIM's and changes to the Apprentice Act are a welcome step. This is important if India has to really reap the dividends of the demographic boom. Setting up an Expenditure Management Commission to review all government spending, consideration of a proposal to give more autonomy to public sector banks and diluting the government stake in them also point towards the broad reform path over the next 2-3 years.

Overall the FM needs to be applauded for preparing a roadmap for stable, non inflationary investment led growth. It has accepted fiscal challenge and is willing to sacrifice short term growth to create more sustainable growth. I feel that more time needs to be given to the government. This credible budget needs to be followed by more concrete and perhaps radical measure for putting the economy on the trajectory for higher growth. What we have got is a promise of better days ahead and the first steps the government is taking to get there. I am quite optimistic that government will take more such steps in the coming days we will get more reforms and growth enhancing measures.

Overall the FM needs to be applauded for preparing a roadmap for stable, non inflationary investment led growth

Amitabh Chaudhry

Chair, FICCI's Insurance & Pensions Committee & MD & CEO, HDFC Standard Life Insurance Company Pvt. Ltd

Mr. Amitabh Chaudhry is the MD and CEO of HDFC Standard Life Insurance Company Pvt. Ltd a joint venture between HDFC Limited (one of the largest professionally managed and diversified financial conglomerates in India) and Standard Life Plc of UK. He has been with the company since January 2010. HDFC Standard Life is today recognized as the premium brand in the insurance space and is one of the India's largest private insurers. Before joining HDFC Standard Life, he was the MD and CEO of Infosys BPO Ltd and was also heading the Testing unit of Infosys Technologies Ltd. He played a critical role in building the BPO Company from its inception to an extremely profitable business with presence in eleven centers across seven countries. He started his career in 1987 with Bank of America and worked in diverse roles ranging from Head of Technology Investment Banking for Asia, Regional Finance Head for Wholesale Banking and Global Markets and Chief Finance Officer of Bank of America (India). He moved to Credit Lyonnais Securities in 2001 where he headed their investment banking franchise for South East Asia and structured finance practice for Asia before joining Infosys BPO in 2003. Mr. Chaudhry completed his Engineering in 1985 from Birla Institute of Technology and Science, Pilani and MBA in 1987 from IIM, Ahmedabad.

He also serves on the Board of Manipal Global Education Services Limited a market leader in corporate and college education in various emerging markets and Shriram Transport Finance Co Ltd one of the largest Non-Banking Auto Finance companies in India.

Reactions To The Union Budget 2014-15

Mr. Bhargav Dasgupta
Co-Chair, FICCI's Insurance & Pensions Committee &
MD & CEO, ICICI Lombard General Insurance

Union Budget 2014 was a keenly awaited event as India's voters looked forward to actionable steps from the newly elected Government. The budget tries to chart an economic blueprint to revive the economy even as it unveils critical measures to address urgent issues upfront and there by kick start the economic growth engine.

India has witnessed difficult times in the recent past as growth faltered amid lack of policy initiatives and reforms. Recognizing this, the budget rightly focuses on creating an enabling environment that will act as a catalyst to facilitate growth. The agenda is to pursue long term growth enablers in the form of infrastructure development, investments in power supply and distribution, broadband connectivity, agricultural and financial reforms. Moving away from the past, the budget targets economic growth through an investment led agenda instead of the traditionally followed consumption driven approach.

Further, the Government's commitment to stay on the path of fiscal prudence augurs well for the long term health of the economy.Its resolve to overhaul the subsidy regime by setting up an Expenditure management commission shows the right approach. If the finance ministry is able to meet its stringent fiscal deficit targets, the

Linking MGNREGA to asset creation and to agriculture and allied activities will improve productivity

country is sure to return to the pink of health in future. The task in the immediate future though is particularly daunting as the Government will have to make all efforts to realize the somewhat optimistic revenue projections.

Infrastructure is clearly on top of the government's economic agenda. The country's infrastructure should get a boost with the proposed development of 8,500 km of roads, introduction of inland navigation project covering a distance of 1620 km, 16 new ports and development of 100 smart cities in the coming years. The doubling of the existing gas pipeline network of 15,000 km will provide a fillip to the existing network. In addition to the proposed plans, the budget rightly sets the tone for better policy framework for project execution. This is a welcome move for a sector plagued by delays in critical projects - leading to cost overruns and an adverseimpact on related sectors. At the same time, the intent to tap private sector resources through the PPP route will help leverage the project management skills of the private sector.

Power sector reform is the next big milestone. Coal is a crucial input for the power sector and the shortage in supply of this essential resource has adversely impacted the country's power output in recent times. Rationalizing the customs duty structure on coal at 2.5% for all types of coal will make import of high grade thermal coal cheaper.The 10 year tax holiday till March 2017 will further encourage launch of new power projects by the private sector.More importantly, allowing banks to lend funds to the sector with flexible structuring will ensure that projects do not get delayed due to shortage of funds.

Agriculture is one of the key pillars of India's ecosystem. Despite its shrinking weightage in the country's GDP, itcontributed tonearly half of the total employment in the country in 2012. As India stares at rain deficit this year, the budget looks at addressing the immediate issues through measures such asa climate adaptation fund, even as it proposes long term measures to change farming practices and modify the current framework pertaining to storage, distribution and marketing of agricultural produce. The introduction of a warehouse infrastructure fund will help strengthen the value chain and avoiddistribution losses. At the same time, linking MGNREGA to asset creation and to agriculture and allied activities will improve productivity and output from such employment.

While it is important to focus on development of a nation's core strengths, it is even more imperative to encourage entrepreneurship, incubate ideas to motivate and inspire a generation of knowledge workers and investors. Developed countries such as the US have benefited tremendously by promoting entrepreneurship. The budget aims at promoting the start-up culture in the country by allocating□ 10000 cr for such initiatives. This will significantly boost capital flow to startups and SME enterprises in the country.

The effort is also likely to ensure gainful employment for more than half a billion Indians below the age of 35 years. Growth devoid of job creation can lead to larger issues including social unrest, an occurrence not alien to many countries today. Promoting startups with a focus on domestic businesses will positively influence job creation in the long run. At the same time, expanding the scope of employment exchanges to act as career centers should help channelize local talent based on ability and aptitude thereby improving productivity and job satisfaction.

Again when it comes to business, India lags global economies and some ofits neighboursin providing a conducive environment for business establishments. Recognizing this critical bottleneck, the budget aims to create a business friendly ecosystem by introducing a single window online facility with integrated payment gateway to speedily clear business and investment related proposals. At the same time, it offers a much needed boost to the manufacturing sector. The investment allowance of 15% offered tocompanies that invest more than ~ 25 cr in new plant and machinery will encourage capital investment by indigenous manufacturers.

The insurance sector finally saw its long pending demand of hike in FDI being met along with the defence sector. With an increase in FDI cap to 49%, the insurance sector will get access to much needed long term capital which can be effectively channelized to increase penetration and reach. Similarly, the defence sector will benefit from improved capabilities as well additional employment opportunities for young, aspiring Indians.

The tax payer has never had it so good. The increase in tax exemption limit, 80C slab, PPF limit and deduction on interest payment on housing loan will not only put more money in the hands of the salaried class but will also channelize the additional saving productively by promoting investing in financial assets rather than non-financial ones.

For the financial sector too, there are major incentives. Banks in particular will gain from being allowed to raise long term funds to lend to infrastructure projects with minimum restrictions pertaining to statutory requirements. At the same time, introducing uniform KYC norms for all financial transactions and a single demat account will encourage better participation in the financial sector.

With so many positives, one tends to overlook the less encouraging factors. One of the sectors that deserved more from the budget is the healthcare sector.

Budget 2014 clearly lays down the roadmap for a revival of the Indian economy

Even though the budget highlighted the need to promote healthy living among Indians and announced measures to increase healthcare facilities, a lot more is required if India were to realizeits vision of Universal health coverage. Enhancing the tax exemption limits for health insurance schemes was the need of the hour. Even today, penetration of health insurance specifically in the middle layer of the population pyramid is a miniscule number. Given that an Indian relies on out of pocket spending for 2/3rd of his health ailment related expenses, it was imperativethat measures were announced to bring a large section of the population within the health insurance fold.

Budget 2014 clearly lays down the roadmap for a revival of the Indian economy. While trying to accelerate growth, it also signals a marked shift to market based economy. It is important to understand that the budget is but one act among several important steps that policy makers need to take in the coming months. If they do act with purpose and resolve, our nation can definitely look forward to returning to its days of glory soon.

Bhargav Dasgupta

Co-Chair, FICCI's Insurance & Pensions Committee & MD & CEO, ICICI Lombard General Insurance

Mr. Bhargav Dasgupta is the Managing Director & CEO, ICICI Lombard General Insurance Company Limited, the largest private sector General Insurance Company in India.

Mr. Dasgupta began his career with the erstwhile ICICI Limited in 1992 and he has held key leadership positions in diverse business areas in the ICICI Group including Project Finance and Corporate Banking, E-commerce & Technology Management, International Banking and Life Insurance.

Mr. Bhargav Dasgupta holds a PGDBA from the Indian Institute of Management Bangalore and a B.E (Mechanical) degree from Jadhavpur University.

Getting the 'big idea' right... execution to follow

Mr. Anup Bagchi
Co-Chair, FICCI's Capital Markets Committee &
Managing Director & CEO, ICICI Securities Ltd.

Last year, India suffered from weak economic health with decade-low GDP growth, declining savings rates, sticky inflation, burgeoning current and fiscal account deficit and tumbling capital expenditure, coupled with an unstable policy environment. This resulted in defensive sectors commanding high scarcity premium while debt ridden cyclicals witnessed a de-rating. However, the maiden Budget of the BJP-led NDA post their emphatic win in the 2014 Lok Sabha Polls, makes us believe the worst is likely over for the economy. Overall, the Budget has amply addressed the strategic need for improving the investment climate by emphasising on measures for creating a framework for low and stable inflation, setting fiscal deficit on a sustainable path through tax and expenditure reforms and setting up a broad based inclusive growth framework for a sustainable market economy.

Commitment to fiscal deficit:

The Union Budget, unarguably the most anticipated in recent times, reiterated its commitment to maintaining the fiscal deficit of 4.1% for FY15E, 3.6% in FY16E and 3% in FY17E contrary to higher market expectations. The government has committed to lower non plan expenditure growth of

> *The Budget aims to create a conducive ecosystem for attracting and raising capital from domestic and foreign investors by way of policies such as uniform KYC and FPI (direct access) and easy access to Indian securities through depositary receipts (indirect access)*

~ 11.1% YoY to | 12.2 lakh crore while the budgetary allocation towards plan expenditure is increased by ~ 27% YoY in FY15, which would be a key catalyst for resurrecting GDP growth.

Disinvestment – pivotal for containing fiscal deficit:

- The government is targeting disinvestments of | 63,425 crore in FY15BE, which we believe could be exceeded given buoyancy in the capital market
- Stake sales in various PSUs to comply with Sebi guidelines of 75% promoter holding could by itself fetch the government a whopping ~ | 80,000 crore. Our analysis of the government's shareholding shows there are 34 such listed entities in which GoI's promoter stake is greater than 75%.
- GoI could also raise funds worth ~| 50,000 crore through Specified Undertaking of UTI (SUUTI). Formed in 2003, it is an offshoot of the erstwhile UTI and holds significant stakes in ITC Ltd (11.28%, | ~29,000 crore), Larsen & Toubro (8.2%, ~| 13,000 crore) and Axis Bank (11.7%, | 10,600 crore)

Stable policy regime to attract foreign investors:

The Budget aims to create a conducive ecosystem for attracting and raising capital from domestic and foreign investors by way of policies such as uniform KYC and FPI (direct access) and easy access to Indian securities through depository receipts (indirect access). In addition, expanding the scope of withholding tax makes it cheaper to raise debt capital. Getting some of the activities, which had gone overseas, back to India is being addressed through clarification around the permanent establishment issues. In our view, the present Budget has shown understanding of the importance of the long term FDI in 1) Defence and insurance (26% to 49% with full Indian management and control via the FIPB route), 2) the infrastructure space for the development of "Smart Cities". The eBiz platform aims to create a business and investor friendly ecosystem in India by making all business and investment related clearances and compliances available on a 24x7 single portal

- Retrospective taxation: The Finance Minister refrained from reversing the 2012 amendment to the Income Tax Act relating to retrospective taxation provisions. However, he emphasised that all fresh cases arising out of such amendments will be looked into by a high-level CBDT committee, thereby eliminating the sole authority of the income tax officer. Further, government reiterated its commitment to stable tax policy regime with no retrospective amendments
- SEZ roadmap: The budget simplified certain procedural aspects of operations within SEZ to attract incremental investments
- GST: The Finance Minister emphasised the need to implement GST during the current year after settling the remaining revenue sharing concerns of the states. FM commentary suggests its implementation is likely by the end of the current financial year
- DTC: The Finance Minister has not considered the DTC as it is still evaluating and considering the comments received from the stakeholders on the revised code. The implementation of the DTC was anyway not expected given only a few days were available with the new government to consider major structural changes in the direct taxes
- REITs: The Budget announced the necessary incentive to REIT in the form of tax pass through status. This move, we believe, would allay concerns over double taxation and, thus, pave the way for REIT listing in India

Revitalising savings...

To address the challenges of decline in overall savings rate, the FM raised the tax exemption limit, re-introduced the Kisan Vikas Patra (KVP) and increased PPF investment ceiling. In addition, for debt mutual funds, the period of holding the units has been increased to 36 months from 12 month earlier for computation of long term capital gains. Also the benefit under section 112 A of paying lower tax at a rate of 10% has been removed and capital gains will be taxed at 20% with indexation benefit (same as earlier). However, for a less than three years investment horizon, attractiveness of debt mutual schemes over fixed deposits has been eliminated as capital gains arising in the growth scheme of mutual funds sold within three years will be taxed at marginal tax rate (30% for highest income tax bracket) same as that applicable on interest received on FDs. The rationale behind increasing the tax rate is the higher usage of tax arbitrage by the corporates which have marginal tax rate of 33.9%. As on March 2014, the total corpus of Income funds, liquid funds and G-Sec funds stands at amount 6 lac crores. Out of this corporates have invested Rs 3.75 lac crores (62%); another 29% is held by HNIs while retail contributing the balance Rs 33000 crores. Also the government encouraged long term infrastructure financing by asking banks to extend long term loans with flexible structuring to absorb potential adverse contingencies as well as permitting lending to with minimum regulatory pre-emption such as CRR, SLR and Priority Sector Lending (PSL).

....for reviving capex in anchor sectors

Investment in infrastructure is one of the paramount needs for sustainable economic growth. The budget emphasised on PPP as the preferred route to mobilise funds for the infrastructure sector. It has

followed a strategy to make the country an attractive destination and facilitate FDI in various sectors. Both private and public sector have jointly shouldered the responsibility of infrastructure creation in the past few years. However, currently, with several of the past infrastructure projects stalled due to regulatory and environment hurdles, the private sector is suffering due to time and cost overruns and a mounting debt profile. This has not only hurt the viability of business prospects but also severely dampened investor confidence, thereby jeopardising future investments in long gestation infrastructure projects. Telecom and Power are already past their peak investment cycles with huge capital expenditure incurred in yesteryears while railways, Oil & Gas and Urban are the next big infra opportunities which needs to be tapped.

Both Union Budget and Railway Budget have amply focused on these sectors. Railways are the backbone of our logistics infrastructure and provide a cost effective and efficient model for transport, which highlights the need for further augmentation of rail capacity in the country. To realise the aforementioned objectives, the government is stressing on Diamond Quadrilateral Network, entailing 9 lakh crore investment along with a bullet train project costing 60,000 crore. Secondly, investment in urban infrastructure has historically been neglected despite urban India contributing ~80% of our GDP. Our investment in urban infrastructure has been mere 0.7% of GDP in the past decade as compared to over 2% for China. Increased focus on road development (8500 km and Rs 37000 crore allocation towards NHAI), tax holiday for power projects, inducing PSU to undertake capex of Rs 247000 crore, ordering for 16 new ports, fresh allocation towards smart city project, proposal for establishment of airports in tier I and II cities etc. would provide the much desired impetus to the capex cycle.

Improving the socio-economic fabric:

To improve the socio-economic fabric of the country, the FM has announced | 10,000 crore venture capital for start-ups which is crucial for revving the entrepreneurial ecosystem of the small and medium-sized businesses, which are one the biggest employment generators after agriculture. Agriculture, the largest employer of labour force stands to benefit from reorientation of the APMC regime. The proposal to have a national market place, restructuring of FCI along with proposed allocation | 5000 crore for increasing warehousing capacity would ensure better price discovery for farmers.

Overall budget depicts the economic ideology of the government

The economic projection of the government look encouraging as the government has managed the growth-inflation trade off well without losing sight on the fiscal consolidation. The finance minister has shown good administrative discipline given the government was formed barely 45-50 days ago. Noticeably, the budget has paved the way to set the fiscal house in order and has laid a clear roadmap to revive growth. Similar to the rail budget, the union budget was pragmatic; had execution at its forefront and focused on improving the structural agility and should be taken as a precursor to the economic ideology of the government.

Anup Bagchi

Co-Chair, FICCI's Capital Markets Committee &
Managing Director & CEO, ICICI Securities Ltd.

Mr. Anup Bagchi is the Managing Director & CEO of ICICI Securities Ltd.

During his tenure of 20 years with ICICI Group he has held many key positions in the field of Retail Banking, Corporate Banking and Treasury. He is a Director in ICICI Securities Inc. He is a Co-chairman of Federation of Indian Chambers of Commerce & Industry (FICCI) Capital Markets Committee. Mr. Bagchi is also nominated as member on the Secondary Market Advisory Committee of SEBI. Mr. Bagchi is an alumnus of IIT Kanpur and IIM Bangalore.

ICICI Securities Limited (I-Sec) is India's one of the leading investment banking firm and is the first service in India to provide complete end-to-end integration, for seamless electronic trading on the stock exchanges through its brand ICICIdirect.com. Apart from being a leader across the spectrum of investment banking, it offers every aspect of business from domestic and international capital markets advisory, Private Equity syndication, Restructuring and infrastructure advisory.

Mr. Bagchi was honoured with `The Asian Banker Promising Young Banker Award'. Mr. Anup Bagchi has recently been honoured with `Industry Newsmaker Award' by Zee Business for his tremendous and unmatched contribution in the field of Finance.

Budget Setting Stage For High Growth Trajectory

Mr. Atul Joshi
MD and CEO,
India Ratings and Research – A Fitch Group Company

The budget presentation of 2014 has epitomized expectations versus reality check for India. Long, suppressed frustration with policy paralysis was leaning for an answer on a government that has put in just about seven weeks in the office. So let us examine how the budget scores from fiscal and capital markets perspective.

Fiscal Deficit, GDP and Disinvestment:

The budget has accepted the fiscal deficit target of 4.1% set by the previous government and will endeavor to adhere to it. A fiscal roadmap for the next two years till 2017 has been laid which augurs well from the sovereign perspective. India will be much closer to the BBB median of 2.5% of the fiscal deficit target.

However, the budget arithmetic appears to be optimistic. The budget assumes a nominal GDP growth of 13.4% (FY14: 12.3%; FY13: 12.2%), leading to net tax revenue growth of 16.9% (FY14: 12.7%) and non-tax revenue growth of 9.9% (FY14: 40.7%). However, attaining the tax revenue growth clearly looks difficult as the Indian economy is passing through a sluggish phase. Although the growth in non-tax revenue has been assumed to be lower than that in FY14, the disinvestment target set out in the

Attaining the tax revenue growth clearly looks difficult as the Indian economy is passing through a sluggish phase

FY15 budget at INR634.25bn is highest till now. Barring FY06-FY09, each union government budget since FY92 has included a disinvestment target.

Plan expenditure and non-plan expenditure are budgeted to grow 20.9% and 9.4%, respectively, in FY15. Non-plan expenditure growth during April-May 2014 has been 48.1% and would have to grow at 3.4% in the remaining months to attain the budget target. This again looks difficult, given the committed nature of non-plan expenditure. In such a scenario, achieving 4.1% fiscal and 2.9% revenue deficit targets will be challenging unless planned expenditure is compressed like in previous years.

India Ratings & Research's (Ind-Ra) back of the envelop calculations indicate the fiscal deficit to range between 4.3%-4.4% for FY15.

Low Revenue Base:

What is the biggest weakness of India's fiscal finances? Low Revenue Base! Revenue/GDP for India is 21% vs BBB median of 33%.

This implies that there are two major issues viz. (i) coverage and (ii) leakage. (i) The coverage of direct taxes is very low i.e., only 2.9% of Indian population pays income tax. This is more important if we put in perspective the fact that nearly 57% of the population is of working age. For the last 10 years, India's tax/GDP has been hovering around 10% whereas the BBB median has been 26%. However, the marginal rates of tax for India are quite high at 33%. The government has not increased the tax rates taking cognizance of lack of any headroom. The government has fallen short esp. on income tax to bring a larger number of people under its ambit. There are several individuals who are self-employed such as shop keepers, hawkers, street vendors etc. and do not pay any tax. The most honest class is salaried class that contributes maximum to income tax. (ii) Sealing leakage of tax income was not addressed. No punitive provisions have been stipulated to minimize the leakage of taxes. An exemplary nature of punishment with speedy execution is required to be stipulated to ensure compliance. It may be worthwhile to mention the US FATCA (Foreign Account Tax Compliance Act) here. The US government has gone extra mile to bring all US taxpayers with even extraterritorial rights requiring compliance with institutions that deal with US taxpayers.

Revenue Structure and Estimates:

Revenue estimates and revenue structure need to be analysed more deeply. Over 2004-2014, excise collection as a percentage of total gross revenue has reduced to a meager 15% from 34%. Customs duty that contributed 18% is down to 15%. This reflects an 'indirect subsidy' being given to the manufacturing corporate sector. The service tax has grown to 15% of the total from 3%. The FY15 Budget estimates the service tax collection to be higher than customs and excise. We need to reintroduce taxation on luxury items at differential rates to increase the base. Also, items of 'demonstration effect' having inelastic demand such as high-end mobile phones may be viewed for levying a higher indirect tax. Why levy higher customs only on gold? Why not have a progressively higher customs duty on imported mobile phones? Why not cost the exchequer USD40bn p.a.?

Corporate and income tax contributed 40% to gross tax revenue in 2004 and for FY14, the contribution is at 54% and further going up to 57% for FY15. This is not a good sign from fiscal balance perspective given our socialistic approach not to tax agriculture etc. Admittedly, the indirect taxes do fuel inflation and are regressive in nature, but is there another tax option?

We need to bring back some balance between direct and indirect taxes, given our socialistic approach that defies economic rationale.

Interest/Revenue:

India's interest/revenue ratio is high at 22% as against the BBB median of just 7.6%. This is perilous, consuming a large part of revenue and leaving little for investment activity. We have a mountain of debt to be serviced out of revenue. Our debt/revenue is 332% as against the BBB median of just 142%.

Over the last three years, India's average borrowing cost has been over 8.5%. The maturities of the securities issued have also been at the longer end of the 10 years to 30 years range. We need to think out of the box to reduce

the interest/revenue ratio. For starters, let RBI buyback high-yield securities and issue lower yield securities in exchange over the next two years. Also, the government should put a target of bringing down the interest/revenue ratio to no more than 18% over the next five years. A road map needs to be laid out here to reduce the interest burden and the sheer debt as a percentage of revenue.

Capital Market Booster:

Several representations of FICCI in this regard have been met with success. Of course, the final guidelines are yet to come out but a beginning has been made in a short span of seven weeks. The government has accepted some key recommendations.

Bank Senior Bonds:

Banks have been allowed since the budget to issue senior bonds to incrementally fund infrastructure requirements. These bonds will be outside the Net Demand & Time Liability (NDTL) and hence exempt from the CRR and SLR requirements. Also, the benefit of exemption from the priority sector assets requirement has been given to assets built out of senior bonds. This will help banks reduce their costs by almost 100-125bp on an incremental basis on senior bonds alone. At the bank level, NIM may also improve by 10-25bp.

This is a welcome step to ease banks' ALM gaps. The transmission of rates by banks is expected to improve, as they will be able to reduce their reliance on short term money market instruments and bulk deposits.

From ratings perspective, senior bonds with infra tags will be considered senior creditors to Tier II bonds, upper Tier II bonds, perpetuals as well as all Basel III bond issued by banks. These bonds will be junior only to deposits of Rs. 1 lac and below that are insured by DICGC. Deposits in over Rs. 1 lac and senior bonds will rank pari-passu and thus be sitting above the all other instruments issued by banks which are capital compliant as narrated above. Hypothetically, if these bonds were to be issued in past, they would have rating levels higher than Tier II bonds'. Thus, their pricing should and could be higher but for the infra tag, the market is likely to misinterpret the seniority of the creditor status of bonds.

Simultaneously, RBI should clarify that banks can issue other no end use specific senior bonds, which would be more helpful from capital market development perspective.

REITS and Investment Trusts:

The pass-through status has been confirmed, which is a long-standing demand of the industry. However, a finer print needs to be evaluated on several counts in terms of tax implication in the hands of resident tax payers (10% but not final liability) and non-resident tax payers (5% final liability), transfer of assets from the existing entity to a new SPV and stamp duty implications etc., long-term definition of REIT brought in line with listed shares etc. This market may see a large push.

Other Provisions:

For FIIs, income from sale of securities will now be treated as capital gains. Differential tax treatment on products offered by MF industry and banking industry has been a bone of contention between the two important players in the market. The treatment as long-term capital gains on debt fund units has been extended from 12 months to 36 months to avail the concessional tax rate of 20% (earlier 10%). Proposals for development of the ADR and IDR markets will be notified soon.

To conclude, the budget has laid a strong foundation for a sustainable, long-term growth trajectory.

Atul Joshi
Managing Director and CEO, India Ratings and Research – A Fitch Group Company

Atul Joshi is Managing Director and Chief Executive Officer at India Ratings and Research – A Fitch Group Company.

Previously, Atul was Managing Director and Head of the Business & Relationship Management (BRM) Group for India at Fitch. He has more than two decades of experience in the financial services industry. Prior to Fitch, Mr. Joshi was in charge of the Financial Institutions Group at ING Vysya Bank India. He was also the Parent Account Manager for India at ING Bank NV. Mr. Joshi started his career at ICICI Bank, where he worked for close to 13 years in both global and domestic treasury functions as well as in project finance.

Atul is a double graduate in Economics and Commerce from Mumbai University, and an all-India 12th rank holder in Chartered Accountancy.

Reactions to The Union Budget 2014-15

Shri T.M. Bhasin
Chair, FICCI's Banking & Financial Institutions Committee &
Chairman & Managing Director, Indian Bank

The new government announced its first budget and delivered what they promised: a pro-growth budget. In the current macro scenario, the Budget is a big positive for the economy. Finance Minister Shri Arun Jaitley has struck the right chord by addressing the challenges of reviving growth, taming inflation and fiscal prudence. FM has announced several steps to revive the investment climate and also push consumption demand.

- Allocation to infrastructure and power in the plan outlay has been significantly increased from last fiscal, which is critical for a sustained recovery in growth. Outlay for power, ports and shipping has been almost doubled, and the outlay for irrigation is 4 times that of last fiscal.
- The thrust on infrastructure development is the need of hour. Overall spending on infrastructure is budgeted to rise 24 per cent over last fiscal to Rs 2.1 trillion. Projects such as creation of 100 smart cities, and greater allocation to roads, irrigation and water projects will boost infrastructure investments.
- Innovative funding mechanisms like infra bonds for banks and Infrastructure Investment Trusts

Finance Minister Shri Arun Jaitley has struck the right chord by addressing the challenges of reviving growth, taming inflation and fiscal prudence

will channelise funds for infra-structure.

- Simultaneously, steps have been taken to improve the investment climate with measures such as clarity on retrospective taxation, liberalisation of FDI in insurance and defence and extension of tax holiday for power sector aimed at improving the investment climate and kick starting the capex cycle.
- To boost the small and medium enterprises, the Budget has proposed setting up of Rs100 billion venture capital fund to encourage entrepreneurship and a district level idea incubation programme, lowering of limit for investment allowance to Rs 250 million and putting in place a legal framework for easy exit for SMEs.
- Steps such as extended excise duty cuts in auto, and consumer durables should bring back growth as they support private consumption demand and spruce up capacity utilisation. The Budget has also given a thrust to expansion of labour-intensive sectors such as textiles, tourism, food processing, construction (mainly roads) and small and medium enterprises.
- To push consumption growth and to give fillip to household saving the budget has announced relief to individual taxpayers through a hike in standard tax deduction, increase in investment limit under section 80C, and increased subvention on home loan interest which is clearly intended to stoke consumption and, therefore, economic growth.
- At the same time, the changes in customs and excise duties will also make some consumer products such as soaps, low-end footwear and colour televisions, and personal computers cheaper, providing a fillip to demand for these items.

- Over the medium term, the government plans to boost agriculture growth to 4%. It has indicated implementation of a second green revolution to increase productivity. Other policy measures that support growth in the sector include improving irrigation facilties and creation of a long-term rural credit fund to improve access to credit.
- Budget saw the government announcing various initiatives that would directly or indirectly lead to raise agriculture output and productivity, improving irrigation and expanding the food processing industry leading to better food security and also aid in checking the food price inflation. The measures to accelerate setting up of a National Market, the Central Government would work closely with the State Governments to re-orient their respective APMC Acts., to provide for establishment of private market yards/ private markets. The state governments would also be encouraged to develop Farmers' Markets in town areas to enable the farmers to sell their produce directly.
- Prioritising restructuring of FCI, reducing transportation and distribution losses and efficacy of PDS would help to tackle the supply side constraint of food inflation.
- With regard to capital market Tax advantage of debt funds over fixed deposits has been eliminated. This may reduce the attractiveness of income funds, and in particular FMPs, and result in outflows from these categories to other alternatives such as fixed deposits and money market funds.
- The government's proposal to treat income generated by foreign portfolio investors as capital gains has been widely welcomed by market participants, and this may boost the capital markets by enhancing fund flows.
- The government also intends to introduce uniform know-your-customer (KYC) norms and inter-usability of the KYC records across the entire financial sector. Further, a single operating demat account for all financial assets has also been proposed in the budget.
- The government has also proposed to liberalize the norms for depository receipts by

allowing issuance of American depository receipts (ADRs) and global depository receipts (GDRs) on all permissible securities. In addition, the government proposed to completely revamp the framework for Indian depository receipts (IDRs) and introduce a "much more liberal and ambitious Bharat Depository Receipt (BhDR). For the Banking sector, the budget is positive. While preserving the public ownership, the capital of the banks will be raised by increasing the shareholding of the people in a phased manner through the sale of shares largely through retail to common citizens of this country. The FM has also talked about the proposal to give greater autonomy to the banks while making them accountable.

- The proposal for a time bound programme for Financial Inclusion Mission to be launched on 15 August this year focusing on the weaker sections of the society would go a long way in strengthening the FIP underway.
- Banks can now extend long-term loans to infrastructure sector with flexible structuring with minimum reserve requirements and priority sector lending (PSL) requirements. This will give a boost to his bank's business and also help in broad basing of infrastructure financing • However, high exposures of banks to the power sector and implementation issues need to be addressed to boost capacity additions.
- Six new Debt Recovery Tribunals to be set up which will speed-up non-performing assets (NPAs) related issue resulting in quicker recovery of NPAs.
- Banks are providing strong credit support to the agriculture sector as well. A target of Rs 8 lakh crore has been set for agriculture credit during 2014-15.
- Differentiated banks serving niche interests, local area banks, payment banks etc. are contemplated to meet credit and remittance needs of small businesses, unorganized sector, low income households, farmers and migrant work force. This would benefit customers and also provide impetus to financial inclusion.

The budget assumes nominal GDP growth at 13.4%, up from 12.3% in the last 2 years and the real GDP estimate at 5.4-5.9% is realistic.

The fiscal deficit for 2014-15 has been maintained at 4.1% of the GDP, in line with the estimate put out in the Interim Budget. The rolling fiscal deficit targets have been set at 3.6% of GDP for 2015-16 and 3.0% of GDP for 2016-17 which reflects the medium term fiscal consolidation measures.

Growth in gross tax revenues has been budgeted at 17.7% (direct taxes at 15.7% and indirect taxes at 20.2%) implying tax buoyancy. In particular, growth in corporation tax is budgeted to rise to 14.6%, up from an average 9.6% in the last three years.

A kick to corporate tax collection is likely to come from an introduction of long term capital gains tax on debt-

The fiscal deficit for 2014-15 has been maintained at 4.1% of the GDP, in the Interim Budget. The rolling fiscal deficit targets have been set at 3.6% of GDP for 2015-16 and 3.0% of GDP for 2016-17 which reflect the medium term fiscal consolidation measures

oriented mutual fund schemes, and through higher collections on account of dividend distribution tax (DDT). However, the expectations on customs and excise duties are aggressive.

More importantly the budget looked to augment spending under the plan segment vis-à-vis the non-plan segment. Similarly, the emphasis was more on increasing capital spending against the revenue spending. The above shift in allocation of expenses is a welcome step. Capital expenditure budgeted to grow at 18.8% compared with an average 7.0% in the last three years. The Budget has adequately provided for all major subsidies such as petroleum, fertiliser and food.

T.M. Bhasin

Chair, FICCI's Banking & Financial Institutions Committee & Chairman & Managing Director, Indian Bank

Shri T.M. Bhasin is the Chairman & Managing Director of Indian Bank from 1st April 2010. Prior to assuming charge as Chairman & Managing Director, he was Executive Director of United Bank of India since November 2007. Shri Bhasin Joined Oriental Bank of Commerceas Probationary Officer in June, 1978, and served in different capacities upto General Manager in Oriental Bank of Commerce before being elevated as Executive Director.

During the tenure of Shri Bhasin as CMD, Indian Bank has received various awards and accolades such as:

- Received National Award to Banks – 2012-13 – First Prize for Excellence in Lending to Micro Enterprises fromHon'ble Prime Minister of India on 1st March 2014.
- Attained the first rank and has been conferred with the coveted National Award for Excellence in Lending to Micro Enterprises for FY 2012 on 4th April 2013 by the Hon'ble President of India.
- Received 1st Prize and the Best Bank Award for extending Credit to SHGs from Selvi Dr J Jayalalithaa, Hon'ble Chief Minister of Tamil Nadu on 24th February 2014.

Shri Bhasin is a member of various Boards and Governing bodies of reputed organizations such as:

- Deputy Chairman, Indian Bank's Association(IBA)
- Director on the Board of United India Insurance Co Ltd
- Chairman of the Governing Board of the Institute of Banking Personnel Selection (IBPS)
- Vice President, Governing Council, IIBF
- Chairman of the FICCI, Committee on Banking & Financial Institutions 2014
- Member of the FICCI Steering Committee
- Chair of the Steering Committee of FIBAC 2014

Educational Qualifications of Shri T M Bhasin are as under:-

- MBA (Finance) from Faculty of Management Studies, (FMS), University of Delhi.
- Advanced Financial Management Programme at JFK School of Government, Harvard ,US.
- LL.B. from Campus Law Centre, University of Delhi
- Certified Associate of Indian Institute of Bankers (CAIIB)
- M.Sc.(Gold Medalist)
- One Year Course in Criminology and Forensic Science (Delhi University Topper)

Union Budget FY 2014-15 – Some thoughts

Shri M. Narendra
Chairman & Managing Director
Indian Overseas Bank

Prime Minister Narendra Modi's new government today unveiled a budget which showed that the government has set its radar in the right direction. This is evident in a range of measures touching the most vital aspects of policy-making that have been announced in the budget. These broadly cover fiscal consolidation, promotion of growth and investment, taxation, banking, among others. There is hope that the govt. will translate these initial positive steps and press ahead with necessary reforms to stimulate the investment cycle and put India back on the growth map after two years of sub-5% growth.

Fiscal Consolidation

The Finance Minister has projected a fiscal deficit target of 4.1% of GDP and in the process maintained the interim budget target set by the previous government. The government has clearly reaffirmed its commitment to fiscal prudence by targeting a fiscal deficit of 3.6% for FY 2016 and 3% for FY2017. The Finance Minister's statement that "We cannot spend beyond our means…. fiscal prudence is of paramount importance because of considerations of inter-generational equity. We cannot leave behind a legacy of debt for our future generations……" is significant

The government has clearly reaffirmed its commitment to fiscal prudence by targeting a fiscal deficit of 3.6% for FY 2016 and 3% for FY2017

inasmuch as it gives the necessary comfort to all the stakeholders that while pushing for growth, the govt. will not throw caution to the wind and that fiscal discipline will be adhered to at most times.

The route to achieving these tough targets will be strewn with many hurdles but we can hope that they can be achieved if one accepts the higher growth of 7-8% that the govt. has set for the economy in the next three years which should automatically lead to higher tax and non-tax revenues, viz. receipts from disinvestment, PSU dividends, etc. The target for Tax-to-GDP ratio has been pegged higher at 10.6% as a result. As the govt. has kept capital expenditure growth higher, the other avenue available is lower revenue expenditure where the intent has already been made clear through allocation of non-productive spending at a lesser amount of 2.28% of GDP for FY15 as against 2.54% of GDP in FY14. Coming to food and fuel subsidies, the finance minister said that the govt. will review them and make them more targeted and inclusive.

Growth and Investment

The new government has put forward a number of measures that would stabilize the economy, give a boost to investments, and encourage savings to drive GDP growth to 7-8% in the near term. The new govt. aims to revive some major sectors of the economy including agriculture, power and infrastructure, manufacturing, and services. Growth is sought to be achieved by providing encouragement to manufacturing through various measures, opening defense, insurance, and e-commerce sectors to FDI, correcting inverted duty structures, setting up of industrial clusters and promoting entrepreneurship.

To provide further impetus to the manufacturing sector, a new investment based deduction scheme has been introduced for allowing 15% of the investment made for acquisition and installation of new plant and machinery from 01.04.2017 to 31.03.2017. The sunset clause for commencement of business for claiming tax holiday in power sector has been extended from 31.03.22014 to 31.03.2017.

The emphasis on development of infrastructure - roads, railways, ports and power – coupled with the increase in FDI limits from 26% to 49% in defense and insurance sectors should considerably catalyze economic growth. Growth should also get a boost through the incentives provided to boost indigenous production through the relief in excise duty and customs duty and rationalization of duty structure, particularly with regard to coal. Proper impetus has been provided to low-cost and slum rehabilitation, which in effect will boost industry.

Other important measures include providing a long-term funding mechanism for infrastructure, removing bottlenecks in coal supply to existing power projects, and reviving investment in the sector. The government has also indicated that it wants to promote use of newer technology whether it is use of broadband or solar energy. The measures will help boost the global investors' sentiment and improve the capex cycle going forward.

Tax Initiatives

The Finance Minister has sought to reassure investors by promising a stable, predictable, investor-friendly tax regime. Tax stability and rationalization is addressed widely, according high importance to restoring investor confidence and boosting sentiments. Rates of corporate tax have been kept unchanged for both domestic and foreign companies. The govt. has increased the Income-tax exemption limits by Rs 50,000.00 from Rs 2.00 lakh to Rs 2.50 lakh and by the same amount to senior citizens to provide a boost to financial savings and yield tax savings for the salaried class. It also hiked the limit available under Sec. 80C from Rs 1.00 lakh to Rs 1.50 lakh for incentivizing tax-saving instruments and contributions which would benefit large sections of taxpayers. The limit for deduction towards interest on housing loan for self-occupied property has been nominally increased by Rs 50,000 to Rs 2.00 lakh.

In another signature initiative, the government would launch a tax reform this year to unify India's 29 states into a common market, a measure that economists say would boost revenue and at the same time make it easier to do business. It has committed to introduce and give thrust to the Goods and Services Tax (GST) which is designed to increase the efficiency of the tax system, widen the tax base, make doing business simpler and increase compliance as well as increase competitiveness of domestic manufacturing and support GDP growth. As state govts. would not take kindly to the loss of fiscal autonomy, implementation of this law would be watched very keenly.

The govt. has announced that it will not make any retrospective tax changes in future, saying the government would not "ordinarily" create new liabilities retrospectively, but stopped short of scrapping the law. The clarification of its stance on this important subject should hopefully provide a major push for investment. Slowly more sectors could open up and become more attractive for FDI.

Necessary tax changes to introduce real estate investment trusts and infrastructure investment trusts are to be introduced. This would lead to channelizing the savings of the public into the housing sector.

Banking & Financial Services

The enabling provision for banks to raise long-term liabilities should boost the growth and profitability of banks, particularly as the exemption of cash reserve ratio and statutory liquidity ratio would improve net

interest margin. The provision more than adequately compensates banks for any tenor premium that they may pay on long-term bonds and enables them to raise long-term senior bonds to better manage their asset-liability mismatches. This is a big boost for banks and enables them to do infrastructure lending without worrying about asset-liability mismatch issues. The most out-of-the-box idea of allowing banks to issue long-term bonds for funding infrastructure, without Cash Reserve Ratio, Statutory Liquidity Ratio and priority sector lending requirements however waits for clarity as regards its implementation.

On capital infusion in banks, the indication seems to be that they would not infuse a lot more into public sector banks and would rather prefer to ask them to look at markets for capital. Considering that the capital requirement of PSU banks is large, we can expect the govt. to take it up in the coming months though the issue was not addressed in the budget. They have also said they would maintain majority stake in PSU banks. The government's in-principle approval on consolidation of banks means that banks not able to meet their capital needs might get merged or taken over. The commitment to bank consolidation and their autonomy should increase the efficiency and competitiveness of government banks.

The govt. has announced the introduction of uniform KYC norms across the financial sector, one single operating demat account and the extension of the liberalized facility of 5% withholding tax to all bonds issued by Indian corporate abroad up to June 2017. Liberalization of ADR/GDR regime is also proposed for depository receipts.

Conclusion

The main focus of the budget is evidently on higher growth and job creation through support of public-private partnership programmes and more investment through FDI and domestic savings. Though there are no big bang announcements, the Budget is realistic and has set achievable targets.

The budget has focused on long-term direction and addresses growth and savings. Reforms promised in advance ruling, retrospective taxation rates and assurance of fiscal prudence, fiscal discipline as well as commitment to a stable and predictable tax regime will boost the confidence of foreign investors. It has spelt out better targeting of food and fuel subsidies and introducing GST to increase the tax-to-GDP ratio and to make doing business simpler.

These measures are very progressive and good for the bond and equity markets notwithstanding the odd market-unfriendly move such as withdrawal of the concessional tax rate of 10% on long-term capital gains to units of debt Mutual Funds or the timeline for implementation of GAAR. They would lead to reduction in inflation in the coming years due to lower fiscal deficit. The budget has set the tone for quick recovery of GDP growth and generation of new jobs and one hopes that it will be followed up by close monitoring and implementation of announcements.

M Narendra

Chairman & Managing Director
Indian Overseas Bank

Shri M. Narendra started his banking career when he joined Corporation Bank as a Trainee Officer in January 1975. In Corporation Bank, his hard work and dedication earned him the recognition of being a member of Chairman's Club for eight years in a row and 18 more years. He joined Bank of India as Executive Director in November 2008. While he was with Bank of India, the Bank won many awards.

Shri M. Narendra joined Indian Overseas Bank as the Chairman & Managing Director on 1st November 2010. He led the mass outreach programme'Walk-in-Bank', a campaign in which all the employees of the Bank participated. Another similar mass contact programme, 'IOB Smile'was launched to reach the unreached giving a fillip to the financial inclusion programme.

Some of the prominent awards he won for IOB are :

- National Award for Excellence in MSE lending for the year 2010-11
- National Award for Excellence in MSE lending for 2011-12
- National Award for Outstanding Performance in implementation of PMEGP in South Zone for 2011-12
- The Sunday Standard Best Bankers Awards 2013
- IBA Banking Technology Awards 2012-13 – Best Use of Business Intelligence
- National Award for Effective Implementation of PMEGP in South Zone for 2012-13

The Budget for Growth

Mr. Vimal Bhandari
CEO & MD, Indostar Capital Finance Limited

On Thursday, July 10th 2014, Finance Minister, Arun Jaitley flagged off what could be called the Reforms Express. An express that would traverse on a bit of unchartered territory, steering away from populism and into the land of Reforms. If there are three main stations or junctions the budget is focusing on then it is Environment, Health and Infrastructure, with other stops along the way.

With startups being the growth engine of the economy, Mr. Jaitley got his focus bang on, with extra sops and a 10,000 crore fund to ventures, he has laid the foundation for improvement on growth in agriculture, create employment and improve our capabilities in developing software technology. The move opens up possibilities for local financial institutions to participate in the surge of entrepreneurial activities across the country, where at least two startups are launched every day. Beginning 2014 saw, funding for early stage companies rose nearly 40% with Rs 3,630 crore invested so far. But over 90% of such venture capitalcomes from overseas institutions and on the subject of overseas, the budget also paved the way for creating a conducive environment for doing business in India. While reiterating the supremacy of the sovereign, Jaitley said his government would avoid retrospective taxation, although he

The budget had a clear stamp of some of the administrative reforms the PM wants to implement especially that of e-governance by moving a lot of permissions online

said existing disputes arising from this would take their own course, however what he did not come clear was on existing cases with respect to retrospective taxes with Vodafone's fate yet hanging in balance.

The budget clarified some transfer pricing principles, and reaffirmed this government's commitment to the goods and services tax and the direct taxes code, although it would have been good to have some timeframe on their implementation.

The budget had a clear stamp of some of the administrative reforms the PM wants to implement especially that of e-governance by moving a lot of permissions online. Furthering the cause of administrative efficiency and streamlining procedures, the Employees Provident Fund Office will introduce a 'Unified Account Number' for its members resulting in better service and portability of their EPF account thereby moving a step closer towards strengthening the social security support in line with that of the West.

From an individual tax payer perspective, the budget has focused largely on savings beginning with the increase in the Public Provident Fund cap from Rs. 1 lakh to Rs. 1.5 lakh as well as increasing the limit under 80C, thereby driving people to save and invest more. The increase in the basic tax exemption will also add more money into ones wallet thereby offsetting some of the rising costs of fuel and basic commodities for a household.

Stopping short of ceding government control of state-owned banks, the budget still promises to consolidate these banks, which is a positive step towards reforming this sector. From a Macro perspective, the Finance Minsiter also said that banks will have to raise money from the market.

The Budget laid substantial emphasis on the real estate sector, with several announcements for the housing industry- a significant step for the sector that has not seen much positives in the recent past. The tax exemption on interest component of housing loan for self-occupied property has been raised thereby reducing the burden on the individuals who were already struggling with high real estate cost. Another announcement that has got me excited is the tax charity on pass through of REITS (Real Estate Investment Trusts) and InVITs (Infrastructure Investment Trusts) both International concepts that have been fairly successful in raising money for these sectors. Both these trusts would receive tax benefits from the government.

Sticking to its promises of Infrastructure laid down in its manifesto, the BJP led NDA 2 has given this sector a huge facelift. With as many as 900 projects in various stages of development, India has emerged as the largest PPP (Public Private Partnership) market.. To streamline the PPP models, the Union Budget has proposed an institution called 3P and earmarks Rs 500 crore.

It remains without doubt that the series of measures for infrastructural development, as presented in the Union Budget 2014, will raise adequate resources for the economic development of the country. The strengthening and revival of the Special Economic Zone (SEZ) will not only revive the investors' interest to develop better infrastructure, but also makes the SEZs effective instruments for employment generation, industrial production and export promotion. This will in turn contribute to the economic growth of the country.

The budget keeps the fiscal deficit at 4.1%, the number put forth in the interim budget, and Jaitley's intent in keeping this constant is commendable. Even more commendable is the 3% target for next year. The numbers indicate that the new finance minister is betting on growth –however, it is impossible for these numbers to be achieved, without a 5.5-6% growth in GDP this year and a near-7% growth in 2015-16 .

While the rail budget emphasized on the creation of a Diamond Quadrilateral as well as the proposal for FDI in Railways, the Union Budget went a step further by allocating 14,389 crore to the Pradhan Mantri Graham SadakYojana as well as Rs. 5000 crore to the Rural Infrastructure Development Fund, thereby giving an impetus to infrastructure in agriculture. Another boost for the infrastructure sector is the relaxation of cash reserve ratio (CRR) and statutory lending norms (SLR) norms for long-term money from banks. This should help the cause of infrastructure financing, and come as a shot in the arm for overleveraged project developers.

While there is also emphasis on women's safety as well as upliftment of the girl child, the focus on developing IITs and IIMs across key states is a positive step and one that will generate a huge talent pool for a growing and emerging economy.

The Budget has addressed many issues relating to tax administration principally with reducing hassles. The most noteworthy has been making the benefit of 'Advance Tax Ruling' available to resident tax payers.

While the budget is good on specific schemes, especially health and environment through the tax on ciga-

The strengthening and revival of SEZs will not only revive the investors' interest to develop better infrastructure, but also makes the SEZs effective instruments for employment generation, industrial production and export promotion

rettes, tobacco and colas as well as promotion of sustainable and clean energy respectively. The boost to infrastructure and manufacturing will largely help these ailing sectors. The NDA 2 roadmap on strict fiscal discipline, new investments, establishment of expenditure commission and the push to broaden the tax base are huge positives. The move to reduce duties and customs on television set below 19 inches as well as mobile phones will benefit these industries as well as help technology reach a larger base. While the push for FDI in defence as well as insurance is a bold and good move the government needs to come clear with regards to all caveats in this policy.

There are some items which will have incidence on additional tax mobilization. Principally, the tax on dividend distribution has been grossed up such that the incidence increases from 16.99% to 20.47%. Similarly, the period of holding for unlisted security to qualify as a long term capital gains has been creased to 36 months (from 12 months) and the tax rate increased to 20% from 10%.

The one point in this budget that stands out or tall in this regards is the 200 crore set aside for Sardar Patels statue- a pilot project of Narendra Modi and one that will raise a lot of eyebrows. What it does not mention is the intent and the rationale and the merit in the same. Probably the FM could have mentioned the development of flora and fauna in the area and how the Unity Statue could be a gateway for tourism, for now though the statue seems it is going to divide more that it is going to unite.

While the sentiment largely remains reformist, what the Finance Minister needs to clarify on is not much on the What but more on the How. How will he bring down revenue deficit, how does he plan to tackle inflation, how is he going to spur growth, some unanswered questions, hopefully should become clear as the train moves ahead. Till then let us all ride on the journey and as with every journey, the fun equally lies in the mystery as much as it is in the anticipation of the destination.

There is some overhang from the UPA especially in terms of MNREGA and targeting the fiscal deficit to 3% next year, there needs to be a close eye on GDP growth, if the same can be at 5.5-^% this year and a 7% next year we are indeed on our way to *"Ache Din"*

Vimal Bhandari

CEO and MD,
IndoStar Capital Finance

Vimal Bhandari, is a Chartered Accountant with nearly 30 years of experience in the financial services industry.He is currently serving as the CEO and Managing Director of IndoStar Capital Finance, a wholesale credit institution sponsored by private equity houses like Everstone, Goldman Sachs, Ashmore and others with an initial capitalization of Rs. 9,000 mn.

He is a widely known top management professional with extensive knowledge in all aspects of business.Prior to IndoStar, he was Country Head of AEGON N.V., the large Dutch financial services player, which has established a life insurance business in India.

Mr. Bhandari, early in his career spent over 16 years with Infrastructure Leasing & Financial Services (IL&FS), out of which 12 years he served as an Executive Director on the Board of Directors for the company.

He is also on the Board of various leading public limited companies as an Independent Director. He has previously been a member of the Executive Committee and the Listing Committee of the National Stock Exchange of India ltd. and has been on the Executive Committee of FICCI.

Union Budget 2014-15 – Impact on Private Equity Industry – Hits and Misses

Mr. Tushar Sachade, *Co-Chair, Private Equity Subgroup of FICCI's Capital Markets Committee & Partner & Co-Head - Private Equity, BBSR & Co. &*
Ms. Sheetal Nagle, *Director, KPMG*

At the very outset, the FM made it clear in his Budget speech that the Budget proposal are only the beginning of a journey towards a sustained growth of 7-8 per cent over the next 3-4 years. His objective has been to usher in a policy regime that will result in the desired sustained macro-economic outcome of higher growth, lower inflation, sustained level of external sector balance and a prudent policy stance.

So, while being wise and not expecting everything that can be done or must be done, to be in the first Budget presented within forty five days of taking charge, let us analyse some of the hits and misses of Budget 2014, from a private equity ('PE') industry perspective.

In the backdrop of political stability, the PE industry was expecting a reform oriented Budget, with a focus on stable and non-adversarial tax regime. At the same time, the indicators in the Economic Survey have not been very encouraging – with slowing growth, low GDP ratio, high inflation, monsoon risk and so on.

The FM has had a fine balancing

On the tax front, the most promising announcement has been on characterization of income of FPIs/ FIIs

act to perform and he did announce some positive measures. The major hits have been: relaxing FDI sectoral caps, characterization of income for FIIs/ FPIs and a proactive tax regime for REITs/ InvITs.

To start with, in line with the prevailing sentiment, FDI limits have been proposed to be raised. In defence manufacturing and insurance, the sectoral caps have gone up to 49% from 26%. The conditions applicable in case of FDI in real estate have been considerably eased and this should lead to real estate activity picking up steam. On the Insurance front, it remains to be seen if the Government is able to get the Insurance Bill passed in both houses of the parliament given that the ruling party does not have a clear majority in the upper house.

On the tax front, the most promising announcement has been on characterization of income of FPIs/ FIIs. It has now been specified that gains arising to FPI/ FII from sale of securities shall be regarded as capital gains; thereby ending the uncertainty regarding the same being classified as business income and being subject to higher tax in India in certain cases. This is a very welcome move and should encourage offshore fund managers who have been operating from outsideIndia for protecting FPI/ FII from adverse tax exposure, to shift base to India. This in turn should, over a period of time, have a positive effect on the emergence of India as an international financial center. Having said that, FPI/ FII availing of capital gains exemption under any treaty would still need to make sure that they meet the necessary substance criteria in the respective treaty jurisdiction to avail the beneficial tax treatment. Further, going forward, FPI/ FII may not have the option of classifying their income as business income, even if they may prefer to do so in certain circumstances.

The SEBI regulations for REITs and InvITs are yet in draft stage. Given the challenges faced by the infrastructure sector, this area needs immediate thrust. With the objective of providing certainty to taxation of REITs and InvITs, a partial tax pass thru regime has been introduced. Interest income is not taxed at the REIT/ InvIT level, and is subject to withholding tax on payment by REIT/ InvIT to unit holders. But all other income such as rental income, capital gains etc. is taxable at the REIT/ InvIT level. This would mean that the foreign unit holders in REIT/ InvIT would not be eligible to claim beneficial provisions of the treaty in respect of capital gains. Further, units of REITs/ InvITs shall be treated akin to listed shares for taxation/ STT purpose in the hands of the unit holders.

While on this point, a few concerns remain - tax deferral for sponsor is not available for transfer of immovable property to the REIT/ InvIT in exchange for units. Further, the issue of levy of MAT at Sponsor level and DDT at SPV level are not addressed. There are issues in respect of debt re-capitalisation and consequent tax deductibilityissues in the hands of the SPV. Plus, there needs to be one-time waiver of stamp duty as well amendment in FEMA regulations permitting foreign investment in REIT/ InvIT, for this structure to really take off.

A positive announcement has been around the intent to reduce litigation. Residents can now approach AAR and additional AAR benches are to be constituted. Further, a High Level Committee is to be constituted to interact with the business community on a regular basis and identify issues on which tax clarity is required. CBDT is then expected to issue clarification on the same, within a set time frame. Also, roll back of Advance Pricing Agreements has now been proposed for up to four previous years. This would provide a big relief to the high pitched litigation that has been ongoing on the transfer pricing front. All of this is very progressive and forward looking; but one needs to wait and watch to see how this gets translated into action.

Moving on to the misses; the significant ones there would be more than 36 months holding period for unlisted securities, back door increase in DDT outgo, status quo on AIFs pass-through issue, silence on GAAR and no progress on clearing the practical issues around indirect transfer.

The holding period for unlisted securities to qualify as long term has been extended to 36 months. The intention seems to be to provide a shorter period of 12 months only for listed securities and equity oriented mutual fund, so as to encourage investment on stock market where prices are market determined. This, in our opinion is a bad move, since the idea should be to encourage investment activity in general and more so in unlisted space, which is not susceptible to hot money and provides a more sustainable source of funding.

While the DDT rate has been kept constant, there has been a change in the method of computation of DDTi.e. grossing up of the dividends actually received by the shareholders, which has resulted in a higher outgo of approx. 3% on account of DDT.

More importantly, the PE industry was expecting some relaxation on GAAR and a roll back on retrospective taxation of indirect transfers. On both these fronts, unfortunately, the FM has not provided any relief. On retro taxation, while he did spell out that going forward the Government would avoid retro taxation, at this point of time, there is not much clarity on how retrospective taxation of indirect transfers would be addressed. As regards GAAR, given the draconian powers vested with the tax authorities and the low level of preparedness of the tax administration to handle such a complex matter, it would have been good if GAAR was deferred beyond April 2015. There has been considerable back and forth on the

matter of GAAR implementation and the FM needs to come out with a clear statement and that too, soon, on the plan in that respect. The business and investor community needs to be given a clear and sufficient heads up, if GAAR is to be effective from April 2015.

Tax pass thru status has not been extended to AIFs other than Venture Capital funds. This is a major bottleneck to PE/ VC activity in India. Given that AIFs are in the nature of pooling vehicles, they need to be given tax exemption and tax should be payable only by the ultimate investors in the same and like manner. This should be uniform for all AIFs, regardless of the investment focus and categorization of the AIFs. In the absence of tax pass thru in the Budget 2014 proposals, fund managers will continue to be plagued with complex trust taxation concerns, instead of focusing their time, attention and energies on more productive investment activities.

Looking ahead, it would help if the characterization of income from sale of securities as capital gains is extended to offshore PE players as well (on the lines of FII/ FPI). PE industry contributes to the Indian economy in the form of long term and stable capital and should be granted a favourable tax treatment. Also, in addition to characterization certainty, safe harbor provision should be introduced to ensure that fund managers being based in India, does not in a way compromise eligibility to claim treaty relief.

Secondly, as regards indirect transfers, Shome Committee recommendations should be introduced in law so as to provide some direction on the practical aspects of interpretation of the provisions, as also to provide exemptions for certain unintended situations. This would give some comfort to the international investor community.

Despite some of these misses, at a macro level, the thrust of Budget 2014 is on introducing measures to revive the economy, promoting investment in manufacturing and rationalising tax provisions to reduce litigation. On balance, all this puttogether should augur well for the PE industry, in the long run.

Tushar Sachade

Co-Chair, Private Equity Subgroup of FICCI's Capital Markets Committee & Partner & Co-Head - Private Equity, BBSR & Co.

Tushar Sachade a Partner in BBSR & Co, Chartered Accountants and is the Co-Head - Private Equity Practice. He is based in Mumbai.

Tushar is a Chartered Accountant from 1993 batch and is a member of the Institute of Chartered Accountants of India. He has a vast experience of over 20 years. Prior to joining KPMG in 2010, he was with PwC from 2007 onwards and prior to that he was a part of RSM & Co., a leading accounting and tax consultancy firms, which merged its practices with PwC in April 2007.

Tushar specializes in advising on tax and regulatory issues relating to the Financial Services sector with emphasis on structuring investment strategies of Private Equity Funds, Foreign Venture Capital Funds, Real Estate Funds, Foreign Institutional Investors, NBFCs, etc. He is a regular speaker at seminars, both in India and overseas and a contributor to the media.

Tushar is the Co-Chair of Private Equity Subgroup of FICCI's Capital Markets Committee

Sheetal Nagle

Director, KPMG

Sheetal is a Director with KPMG in the Private Equity Tax & Regulatory practice.

Sheetal is a qualified Chartered Accountant and Company Secretary and has work experience of over 15 years with the Big 4 accounting firms coupled with a stint with the Tata Administrative Service.

Sheetal has serviced abroad range of clients on tax and regulatory matters in the Financial Services space and has mainly focused on Private Equity clients – domestic and offshore. She has worked extensively on assignments involving structuring investments of funds into India, advising on offshore investment platforms, structuring presence of private equity funds in India and transaction structuring.

The Union Budget – An expression of positive intent

Mr. Rajesh Sud
CEO & Managing Director
Max Life Insurance

With strong fundamentals the Indian economy has tremendous growth potential. The underperformance for the past few years, particularly last year wherein GDP growth has been sub 5% had given rise to a strong desire for change. The new government has been elected with this promise and the first budget was an opportunity for the government to present its policy direction.

While avoiding populist moves, the Finance Minister was able to maintain a fine balance and has something for almost all its stakeholders. A pragmatic budget, it aims to promote the market economy, accelerate policy reforms in some of the key sectors, redefine the centre-state relationship by increasing transfers to states, lay the foundation of a digital economy and foster job creation as well promote entrepreneurship.

Politically also this budget has won over key stakeholders through a series of measures. It has provided some cash back to salaried class that has been impacted by persistently high inflation and low growth rate over the last several years. The Finance Minister has made a commitment to introduce an investor friendly taxation system which will keep the positive sentiment buoyant in the business community.

The Finance Minister has made a commitment to introduce an investor friendly taxation system which will keep the positive sentiment buoyant in the business community

While the Finance Minister acknowledges that it will be difficult to plug fiscal deficit at 4.1%, he has attempted to lay out a roadmap to progressively lower the fiscal deficit every year and set himself the target of 3% of GDP by 2016-17. The budget has enough substance to assure that the government is serious about improving India's fiscal position and revive growth.

However, on the hind sight, while the budget offered a few decisive policy initiatives it has conspicuously avoided any emphasis on a 'grand strategy'. It shows intent, but lacks details to convert the intent into actions.

The larger disappointment was perhaps the budget could have been a tad bit more inspirational. It could have signalled an economic rebalancing away from consumption and demand and towards investment and supply. Overall it could be said that the government has played safe rather than use this opportunity to signal significant paradigm shifts.

Lets us look at what the budget means to some of the key sector:

Agriculture

About 55% of India's population still depends on the agriculture sector. At the same time over 9 million farmers have left farming in the last 10 years. It is time for Green Revolution 2.0 in India which would involve adoption more advanced agricultural inputs such as mechanization, high yield seeds and new irrigation technologies by Indian farmers.

The Finance Minister in his budget speech set the target of sustaining 4% growth rate in agriculture. It seems daunting given the deficit monsoon this year but the announcement of a slew of initiatives to make agriculture more competitive will help. The new schemes intend to change the farming practices to improve yield as well as modernise storage, distribution and marketing of agricultural produce. These measures indicate that the new government has correctly diagnosed the problems afflicting Indian agriculture correctly and over the next few years aim to overcome supply side constraints that have resulted in obstinate food inflation.

Manufacturing

Manufacturing sector is going to play a critical role in revival of growth in Indian economy as well as enhance employment opportunities. The budget proposal supports the manufacturing sector in a big way by rationalizing customs and excise duties. The budget announcements related to service tax regulations provide a road map for GST which is a critical step towards avoiding double taxation.

The Finance Minister has sought to take care of the problem related to inverted duty structure, and promote domestic manufacturing in sectors such as electronics, chemicals and petro-chemicals, energy and ship breaking. The exemption in custom duty aims to boost domestic production of electronic goods.

Insurance

With respect to the insurance sector, opening up of FDI to 49% is a welcome move and should bring in the much required long-term capital for the sector. It will also bring in domain capital which is of critical importance in this phase of growth of life insurance industry.

The budget proposal supports the manufacturing sector in a big way by rationalizing customs and excise duties

Initiatives such as increase in 80C limits from Rs. 1 lac to Rs. 1.5 lac, increased exemption up to Rs. 2 lacs on interest on loans pertaining to self-occupied house and marginal increase in personal income tax slab from Rs. 2 lakh to Rs.2.5 lakh will allow more money in the hand of the customer, which is a positive development for long-term savings instruments including life insurance. Exemption of service tax on micro insurance premium upto Rs 50,000 and removal of Dividend Distribution tax are also welcome moves. Common KYC and one Demat account for all financial instruments will bring convenience for consumers.

However no major incentive has been announced to provide a fillip to long-

term savings apart from additional limit for PPF. Providing a separate limit for tax exemption for pension and making annuities tax free as well as increasing limits under section 80D for health insurance, could have helped the insurance sector. Life Insurance plays a critical role in providing long-term funds for infrastructure development by channelising domestic savings and any tax incentives could have helped in funding infrastructure growth.

Banking

Major initiatives for the banking sector include setting the stage for divestment of government stake in state-owned banks by keeping aside Rs11,200 crore for recapitalization of public sector banks.

The other initiative of bank funds being raised for infrastructure lending and will be outside the purview of mandatory reserve requirements. If banks don't have to meet cash reserve ratio and statutory liquidity ratio requirements for money raised to fund infrastructure, it will help decrease costs. But it remains to be seen how much this boosts credit growth at the macro level since infrastructure firms could just route their borrowings from other sources to banks.

Infrastructure

The budget proposal supports several infrastructure development initiatives with an aim to provide not only growth to these sectors but also generate employment. The Finance Minister has allocated Rs 37,800 crore to National Highways Authority of India for roads and Rs 14,000 crore for rural roads. He has also allocated Rs 7,060 crore for 100 smart cities and satellite towns with transport and infrastructure. Not only did the Finance Minister make large allocation to infrastructure, he has also initiated better policy framework for execution of projects and aims to engage private sector in this capital intensive sector.

As infrastructure spending improves, new orders will flow in for engineering, procurement and construction companies. This in turn will ensure economic growth for the country.

Education and employment

The new government has recognized employment generation as a major issue and aim to create jobs through its focus on infrastructure, urbanization and entrepreneurship.

The Finance Minister has increased the overall budget allocation on education particularly for creating high quality higher education centres. The government aims to convert employment exchanges into career centres and focus on National Multi-Skill mission with an idea to promote employment through entrepreneurship.

Missed Opportunities

There was also a widespread expectation regarding neutralisation of the retrospective taxation. The clause was not changed but the Finance Minister tried to assuage investors' concern by assuring that ordinarily he will not introduce retrospective tax amendments in the future. This is not enough and may not assure foreign investors and those companies caught in the ongoing cases have to now prepare themselves for long haul.

The Union Budget also does not provide a roadmap on subsidy regime. It only promises to come out with Urea policy sometime in the future. The budget did not give enough indication on government policy on fuel and food subsidy as well as deregulation of electricity prices.

No major initiatives were announced for over all social development. All those living below the poverty line were waiting desperately to free themselves from the curse of poverty. Yet after knowing that the poor benefit the most from the developments on the social sector, not much was announced. Since improving productivity and growth is of utmost importance of the NDA to do list, investment in the social sector becomes even more essential.

Most policymakers also agree that low levels of public spending on health are major factors accounting for inadequacies in these sectors amounting to poor reach, unequal access, poor quality and high costs. Similarly instead of talking about a financial plan to comprehensively improve the quality of education the budget refers to piecemeal measures. No major initiatives were announced in these sectors apart from high-end educational institutions and hospitals.

The union budget doesn't have much on reforms. Most measures talked about in the economic survey remain unaddressed, such as subsidy reforms, labour laws and no concrete proposal on restructuring the Food Corporation of India which is important for India's food security.

In conclusion

Given the current fiscal and economic constraints the Finance Minister was facing, this Union Budget 2014-15 is a good one. The net message of all the policy decisions is clear "India is open to business, it subscribes to transparent dealings, it is anti-corruption and it wants to improve the lives of all its citizens but understands that it will require to do different things for different segments and is committed to this happening steadily through a period of time."

Rajesh Sud

CEO and Managing Director
Max Life Insurance

Mr. Rajesh Sud was appointed CEO and Managing Director with effect from November 1, 2008 of Max Life Insurance which started operations in 2001 when the insurance sector was opened to private participation. A founder team member, Rajesh was amongst the first few management team members to join Max Life Insurance.

He leads the company towards achieving its vision of being the most admired life insurance company in the country.Prior to this, Rajesh was responsible for establishing a multi-channel distribution network for the individual life business. Rajesh has successfully established Agency as the core channel for the company with strong focus on process, training and productivity. These strong foundations have allowed Max Life Insurance to rapidly grow to pan India presence with a professional and trained sales force, which is widely regarded as the best in the industry.

Apart from his distribution role, Rajesh has also worked on many cross-functional projects and played a key role in defining Max Life Insurance's business strategy and growth plans.

Prior to joining Max Life Insurance, Rajesh was the Head of Asset Finance business at the largest foreign bank in India, ANZ Grindlays Bank and was seconded as the CEO and MD of the Bank's subsidiary finance company, Esanda Finance and Leasing Ltd. Rajesh started his career with Bank of America and held various positions of increasing responsibility. Rajesh was part of the transition team that managed the successful sale of Bank Of America's consumer banking business to ABN Amro Bank and served as the Head of Consumer Banking Sales.

Rajesh completed his Advanced Management Program from Wharton Business School, University of Pennsylvania, Philadelphia, USA. He also has a Management post graduation degree in Marketing and Finance from Faculty of Management Studies, Delhi University.

Article - Reaction to Union Budget: 2014-15

Mr. Saurabh Sarkar
MD & CEO
MCX Stock Exchange

We believe the Budget of 2014-15 is a growth oriented, realistic and well defined budget. The finance minister has made an attempt to look at all potential growth areas and provided incentives to boost overall economic development. The FM has communicated an aim at higher growth, lower inflation, and a prudent policy stance in the remaining part of Financial Year 2014-15. We all had great expectations from the government and we are glad that from the slew of policies and reforms announced in the budget, due attention and significance has been given to key sectors like Manufacturing, Banking, Power, Real Estate, Infrastructure, Insurance, Capital Market etc.

Manufacturing has been given lot of importance which was not the case in earlier budgets. The manufacturing sector which is core to any economy is sought to be revived by the introduction of the investment allowance of 15%. It will help in creating a positive climate for investment in manufacturing and generate employment in many sectors.

The Government has stated its intention to infuse Rs 2.4 lakh crores

Government's move to provide incentives to Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts and giving a tax pass-through status is a positive move

by 2018 in Public sector banks (PSBs) to enable them to meet their significant capital requirements due to Basel-III norms. This should help capitalize the banks to a great extent and this was required because of the critical nature of the Banking sector in the Economy.

A 10 year tax holiday has been extended to the undertakings which begin generation, distribution and transmission of power by March 31, 2017. It should provide much required certainty for investors investing in power projects. The target of the new government to provide 24/7 uninterrupted power supply to all homes augurs well for the growth of energy sector in India.

The government of India has considered the PPP model as one of the key driving methods of investment. India has emerged as one of the largest PPP markets in the world and initiatives like the development of new airports through this model will provide a massive boost to the overall economy of the country in terms of infrastructure. Further, the increase in deduction for interest paid on housing loan for a self-occupied house property from Rs 1.5 lacs to Rs 2 lacs, should provide a boost to the housing and banking sectors and increase job opportunities in real estate construction. The boost to the infrastructure creation and large investments in the rural economy including agriculture will certainly kick-start the economy.

The proposed increase in the Foreign Direct Investment (FDI) cap from 26% to 49% will help bring in much needed capital into the insurance industry. This will translate into greater marketing efforts from the industry players, which will help deepen penetration levels and provide cover to more families. Increasing of this limit will result in immediate FDI inflow into the country. Growth of insurance will also have the spillover benefit of increasing investments in Government Debt and Infrastructure.

The other important announcement is to set-up a Rs. 10,000 crores Start-up fund for new businesses.It is well-known that startups have brought a lot of innovation to industry and most of the successful companies around the world have begun as small start-up enterprises. In India this kind of incentive was missing. However, with this reform, there will be a substantial growth in the number of such companies coming into existence which in turn will contribute to overall economic development and drive required growth.

Announcements in the budget will provide a great fillip to Capital Markets too. Based on all these above, there would be lot of growth in activity in the primary and secondary Capital Markets. Further, the government's move to provide incentives to Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts and giving a tax pass-through status is a positive move as it will reduce the pressure on the banking system, help avail fresh equity and attract long term finance from foreign as well as domestic sources.

The Capital Markets may also see a lot of activity because of the boost provided to the Manufacturing Sector

The Capital Markets may also see a lot of activity because of the boost provided to the Manufacturing Sector. Further, the increase in the basic exemption limit from Rs. 2 Lacs to Rs. 2.50 Lacs will benefit individuals. The increase in tax deduction under section 80C from Rs. 1 lac to Rs. 1.50 lacs will help in achieving objectives of encouraging the households to make long term savings, and also increase the overall savings rate in the economy which has seen a decline over a period of time. Some of such savings may be channelized towards Capital Markets directly or indirectly through Mutual Funds etc. More importantly, the tax clarity on equity transactions by foreign portfolio investors (FPIs), the budget has paved the way for improved flows into Indian Equities. Income arising to FPIs from transactions in securities will

be treated as Capital Gains. Measures taken may benefit Capital Market directly or indirectly, however, some reduction or even possible removal of the Securities Transactions Tax (STT) would have proved an additional boost to domestic Capital Markets.

On the whole, we believe that the budget has laid down a long-term economic roadmap for the country to reach a decent level of growth. The budget is also a tax-payer friendly and most importantly; it has stayed away from any new populist schemes that may further jeopardize the fiscal situation.

Further, the requirement of resources towards the desired growth rate that the Government is targeting is huge and a substantial portion of that has to be raised from the Capital Market. Such proportion of capital can only be generated through a vibrant capital market with wide participation. With such a holistic budget, we are sure that a Stock Exchange like ours and all capital market participants would play a significant role in achieving the government's vision for the country.

Saurabh Sarkar

MD & CEO
MCX Stock Exchange

Mr. Saurabh Sarkar is the Managing Director and Chief Executive Officer of MCX Stock Exchange (MCX-SX) - India's new stock Exchange, and also a Member of the Governing Board of MCX-SX, which consists of seasoned Regulators, financial market experts, domain specialists, experienced market practitioners and acclaimed academicians.

Mr. Sarkar is also a member of the Executive Board committee of South Asian Federation of Exchanges (SAFE), a regional forum of exchanges and regulated entities

Mr. Sarkar has over 18 years of foreign exchange, money market and interest rate derivative experience with banks such as ANZ Grindlays, Standard Chartered & Credit Agricole. Prior to joining MCX-SX, he was the Managing Director and CEO of the United Stock Exchange. He has rich experience in intensive policy issues related to financial markets and expertise in working with multiple regulatory frameworks, markets, products and strategic communication with various industry stakeholders.

He has been a regular speaker at different industry forums organised by industry associations and a part of various regulatory and government committees on policy issues related to the development of the financial market.

An alumni of IIT Delhi and XLRI Jamshedpur, Mr. Sarkar is an MBA in Finance and Marketing.

Reactions to the Union Budget 2014-15

Mr. Yashish Dahiya

CEO & Co-Founder, PolicyBazaar.com

After witnessing long hauled slowdowns in the last decades, the first budget proposal by Arun Jaitley under the Modi led government appears to have addressed a number of growing issues, if not all.

The Budget, given the lack of time at the hand of the present government, did not usher any radical reforms but has definitely set the ball rolling in favor of the promise of development. Government's proposals of hiking the FDI limit in insurance and defence to 49%, giving impetus to the infrastructural development through RIETs and tax relaxation on home loans are few things which will augur very well in the long term, for the economy.

Issues like expansion of infrastructural development across a wider geography have been emphasized strongly with its title 'Scale, Skill and Speed'. The income tax exemption limit has been increased to 2.5 lakh from 2 lakh for people under the age of 60 and to 3 lakh for senior citizens. The PPF and the 80C limit has also been increased to 1.5 lakh from 1 lakh. Moreover, they are in the process of producing a single, simplified tax regime for the country which I reckon is a commendable and much needed initiative, which promises to make the tax process much more transparent. The promised "stable" tax climate something a lot of us are looking forward to with a keen eye. While these may not be viewed as substantial

In terms of the e-commerce industry, the decision of allowing foreign companies to sell goods online without any additional approval - provided they are manufactured in India will certainly boost manufacturing

amendments, they can definitelky be looked at as 'comforting change'.

For the insurance sector in particular, the Budget 2014 has indeed ushered in good news for the insurance sector with the rise of current FDI cap of 26% to 49% via the FIPB route. An enhanced flow of foreign capital and international expertise will result in accelerating overall development of the insurance industry through increased access to international expertise, enhanced product innovation, deeper distribution strategies and world class business practices. The resulting impact on the growth of the Indian insurance sector will be very positive. As per few reports the, higher FDI limits will help the industry to gain additional Rs 7,800 crores.

Life insurance is a capital intensive business and with 36 crore policies, India's life insurance industry is the largest in the world. Insurers need capital to maintain a healthy base, offer a wider bouquet of products, and protect consumer interests against insolvency. While catering to the vital directive of securing against loss of life, the life insurance industry is also a critical contributor in enhancing financial inclusion and funding its infrastructure costs. According to data on the website of Life Insurance Council, an umbrella body of life insurers, as on March 2013, insurers have set up around Rs 34,200 crore as capital in the life insurance industry. However the industry continues to remain capital starved. The hike in FDI limit will bring in the much needed capital to revive the insurance industry and bring it back on the growth track.

Additionally, it's not just the insurance industry which will gain from this move. The capital from new players and disinvestment by local players will help the government fund big infrastructure projects. It will also bring in opportunities for cheaper capital for smaller projects as well, improving quality and delivery of low cost and affordable housing projects, including the idea of creating 100 new cities. The government has also proposed to provide the necessary incentives for real estate investment trusts (REITS) which will have a pass-through for the purposes of taxation in effect avoiding double taxation, is what the budget suggests with an allocation of Rs 7,060 crore in the budget for these newer cities. Currently, several projects are unable to go in for foreign direct investment because they do not fulfil the minimum criteria. This has meant only large scale projects, usually on the higher side of the price range, are able to attract attention from foreign private equity funds.

The budget should now be able to change this situation along with cooling off of house prices, going a long way in helping the Indian middle class. Infrastructure on the whole has a long term impact and the government's push for the same is an indication for me that they intend to stay in power for an equally long period.

In terms of the e-commerce industry, the decision of allowing foreign companies to sell goods online without any additional approval - provided they are manufactured in India will certainly boost manufacturing, while also significantly helping retail e-commerce grow. This is the first time that India has allowed foreign companies to sell their wares online directly to consumers. India currently allows wholly-owned overseas subsidiaries in single-brand retailers that sell products under a single label through physical stores. But such ventures must get clearance from FIPB while sourcing 30% of their products within the country. Although, the industry was hoping for e-commerce to be 100% FDI, the move has definitely carved a path of some key players.

Uniform KYC across banks, insurance companies and mutual funds, is also a positive move as this will increase transperancy and made the issuance process faster and smoother. However,considering that Banks have their own KYCs and IRDA last year launched e-repositories for insurance customers, we need greater clarity expected from government on this how this will be implemented across banks, mutual funds and insurance industry.

Overall I believe that this was a good budget. The lack of large scale reforms, despite the BJP winning the biggest single party mandate in three decades, did emerge as a disappointment to several investors, including myself who were expecting slightly more. Having said that, the lack of time on their hands has led to the current situation, as the new government had

to largely live with the pre planned budget as laid out by the earlier political establishment.

Concluding my take on the budget, I would suggest that, as Jaitley has effectively pointed out, a need for the introduction of fiscal prudence is of paramount importance. This will be one of the first steps towards achieving the fiscal deficit target of 3.6% for 2015-2016, as set by the new government. Budget 2014 is in the large sense pragmatic, realistic and looking forward, albeit a 'Budget of Constraints'.

Yashish Dahiya
CEO & Co-Founder
PolicyBazaar.com

Yashish Dahiya is the Chief Executive Officer (CEO) and Co- Founder at PolicyBazaar.com, the largest online insurance aggregator in the country. His long term strategies have turned this financial start-up into a thriving successful brand in the short span of just 5 years. An expert in the field of insurance, Yashish holds extensive knowledge of the consumer financial space in India.

Before starting his entrepreneurial journey with PolicyBazaar.com, he worked with First Europa, a Global Online Insurance Broker, as their CEO. At First Europa, he was responsible for leading the global expansion and managing the business of the company across 9 geographical locations. He has also had experience of working with an online travel aggregator, ebors.com, a leading pan-European online travel agency and led their business as the Managing Director.

He started his career as a Business Unit Head at Illinios Tool Works and later moved on to Bain & Co. to work as a Management Consultant.Yashish holds a Bachelor's Degree in Engineering from IIT Delhi, a Post Graduate Diploma in Management from IIM Ahmedabad, and an MBA from INSEAD.

Budget of constraints

Mr. Sunil Godhwani
Chairman & Managing Director,
Religare Enterprises Limited

The Union Budget, one of the most keenly tracked events in any financial year is behind us now. This year, the budget for financial year 2014-15 generated more curiosity since this was the maiden financial statement of the Narendra Modi government that won a landslide victory just 45 days ago. The sharp fall in equity markets notwithstanding, the budget has announced a series of pragmatic steps that are likely to revive growth in the Indian economy. The market reaction is perhaps knee jerk and sentiment should rebound in the coming days. Those expecting big bang reforms so early in a government's tenure should perhaps refer to Finance Minister Arun jaitley's repeated assertion that this is just the beginning! That is indeed the case.

To naysayers, the budget had a blockbuster idea – that of setting up 100 smart cities, which will technology driven, possess robust infrastructure, and take the load off our present urban centres. The allocation may be only 7,060 crore rupees initially but if executed well, this single idea has the potential to change the face of India as it will attract huge amount of capital, generate jobs and give us cities of the future.

The budget had a blockbuster idea – that of setting up 100 smart cities, which will technology driven, possess robust infrastructure, and take the load off our present urban centres

The budget also focused on a number of nuts and bolts and niggling issues that have been impeding growth. Despite a stiff macro-economic environment, tepid growth in tax collections, oil

shock due to events in Iraq and threat of a drought, the Finance Minister has stuck to the fiscal deficit target of 4.1%. That is indeed commendable and shows the government's resolve to take challenges head on and at least not give any leeway to its finances immediately. This bold step is bound to give comfort to Reserve Bank of India, credit rating agencies and foreign investors. Given the government's commitment to fiscal prudence, the central bank may start to gradually cut interest rates now if inflation remains stable.

The budget had a series of steps, tax breaks and healthy allocation for a number of sectors including power generation, inland waterways, low cost housing, slum development, new IITs and IIMs, road construction, and a special budget for sanitation. Measures were also laid out to boost the spirit of entrepreneurship in the country with setting up of a 10,000 crore rupee fund. Further, the 15% allowance to manufacturing companies investing in plant and machinery is a key positive for the industrial sector. Importantly, the threshold for this incentive has been cut to 25 crore rupees from 100 crore rupees to give much needed boost to small entrepreneurs.

The budget also left more disposable income in the hands of the tax payers and this will too play a role in pushing demand. It raised limit under Section 80C by 50,000 rupees to 1.5 lakh rupees and raised rebate under personal income tax to 2.5 lakh rupees from 2 lakh rupees. Measures were also taken to spur demand in the housing sector with the limit for interest paid on home loans hiked to 2 lakh rupees from 1.5 lakh rupees.

The jury is still out on the hike in FDI in defence sector to 49% from 26%. Observers say it may not open the floodgates since foreign companies will transfer technology only if they own a majority stake. To that effect, a cap of 51% was more desirable. However, there are no such issues in the field of insurance, where a similar proposal to raise FDI to 49% has been hanging fire for several years now. While the budget has announced the new ceiling, hopefully the government will be able to push through this crucial legislation in Parliament. It is estimated that it will address the much needed supply constraints from the insurance sector once higher FDI is introduced.

The first budget of the National Democratic Alliance government was a budget of intent and gave more than a peep into the roadmap for the next five years. The government is currently assessing the ground situation and the next few months will hopefully see some feverish groundwork before we see some mega announcements in the budget for 2015-16, which is barely eight months away. Till then, implementation and execution of this budget's announcements will be the key.

Sunil Godhwani

Chairman and Managing Director, Religare Enterprises Limited

Mr. Sunil Godhwani, Chairman and Managing Director, Religare Enterprises Limited, is the driving force behind the group and its vision. Sunil, with his strong leadership skills, believes in leading from the front and has nurtured a culture that is entrepreneurial, result oriented, customer focused and based on teamwork. He has given strategic direction to Religare's growth since his joining in 2001 and has been a key force in giving birth to Religare's current shape and form. Prior to joining Religare, Sunil has had a diverse and wide-ranging experience of over two decades in managing large scale business ventures. He also serves as Director on the Boards of various group companies like SRL Limited, AEGON Religare Life Insurance Company Limited, Ligare Voyages Limited, Fortis Healthcare Limited and other subsidiaries/ Group companies of Religare.

Sunil is a prominent Industry spokesperson and is an active participant across various platforms such as the Confederation of Indian Industry (CII) and the Federation of Indian Chambers of Commerce & Industry (FICCI). He has also been honored with many awards and accolades globally.Born and raised in New Delhi, India, Sunil pursued his higher studies internationally. He received a B. Sc. Degree in Chemical Engineering and a M.Sc. in Industrial Engineering & Finance from Polytechnic Institute of New York.

Reactions to the Union Budget 2014-15

Mr. Ananth Narayan G., *Co-Chair Debt Market Subgroup of FICCI's Capital Markets Committee & Regional Head, Financial Markets, South Asia, Standard Chartered Bank*

The recent budget has significant implications for debt capital markets in India. The fiscal deficit glide path, steps to ease FPI investments into India from a tax and access perspective, the proposed tax changes for non-equity mutual funds, and special incentives for banks to issue infrastructure bonds – all these could impact interest rates and credit spreads. This paper dwells on two of these aspects – relating to debt mutual funds and to infrastructure bonds – and attempts to present a holistic picture of implications and recommendations for debt markets.

Debt Mutual funds

The budget announced that tax incentive for non-equity funds would accrue only after 36 months of holding, rather than the 12 months earlier.

With this, the 12-18 month close-ended Fixed Maturity Plans (FMP), largely a tax arbitrage route with cumulative assets under management (AUM) of about INR 1.75T, could eventually cease to exist.

There is also the fear that besides close-ended FMP, open-ended debt funds may also lose sheen with investors. There are two significant offshoots of this, that merit debate.

Firstly, direct investments by investors into debt securities could paradoxically still attract a favorable 12-month capital gains tax treatment. Surely, the intent of lawmakers is not to encourage direct investments as opposed to

> ***It must be emphasized that except for the possible anomaly of direct investments into debt securities, debt mutual funds remain the best route for investors to benefit from interest rate***

using professional mutual fund managers. This anomaly needs to be corrected.

Secondly, open-ended debt funds are large investors in corporate bonds– to that extent, lower interest in open-ended debt funds could lower demand for corporate bonds. Open-ended debt funds entail non-trivial interest rate, liquidity and credit risk for investors, as compared to close-ended short dated FMP. Would argue that it makes sense to retain favorable tax treatment for open-ended debt mutual funds, as an incentive to spur activity in the corporate bond market – a stated objective of the Finance Minister in the budget. This would be just as critical as the extremely favorable tax structure available for equity mutual funds, as an incentive to grow investor participation in equity markets.

It must be emphasized that except for the possible anomaly of direct investments into debt securities, debt mutual funds remain the best route for investors to benefit from interest rate views and to maximize tax-adjusted debt returns. In the ideal scenario, the obvious tax arbitrage of 12-15 month FMP will disappear, leading to investors partly moving out of debt, and partly looking at a longer horizon of debt investments. This should mean the quality of debt mutual fund AUM should improve over time, allowing them a more active participation in longer tenor corporate bonds and government debt.

Will interest rates be impacted because of this? Banks will see an increase in deposits as FMP loses out, and to that extent, they should not be directly impacted. However, NBFCs and some corporates, who benefitted from the FMP demand for short end bonds and CPs could face challenges. Likewise, slowing demand for corporate bonds from open-ended debt funds could push corporate spreads higher.

RBI should allow some additional liquidity to flow into the system, and steepen the interest yield curve

Bank Infrastructure Bonds

The other significant debt capital market initiative announced in the budget allows banks to issue long term senior debt to fund infrastructure, and at the same time, to obtain relief from the need to maintain statutory reserves of SLR, CRR and PSL against these incremental liabilities and assets.

This could have far reaching implications for corporate bond supply, credit spreads, general interest rates and yield curves. There are several facets to this.

First, a quick look at the current context. With low economic growth and in the absence of any discernible investment cycle, banking credit growth has been anemic, at 13%. Mirroring this, corporate bond issuances from real economy end users have been very low as well. On the other hand, with large amount of redemptions due this year, gross government debt issuances are at an all time high. This year will unlikely see any RBI open market purchases of government debt, and at the time of going to press, the FPI debt limit is nearly fully utilized. Liquidity has been kept tight as well, with average overnight rates hovering at 8.40%. All this comes together to keep government bond yields relatively high, while corporate spreads over government yields remain compressed.

Banks hitherto have been running liquidity mismatches of longer-term assets against shorter-term liabilities, but periodic loan pricing resets takes the price risk element out of the picture. In fact, one could argue that linking the SLR & CRR benefit specifically to bank infrastructure bonds perhaps misses the point – if the point was to incentivize investments. Perhaps the benefit could have been passed on for incremental lending by banks in infrastructure, without necessarily requiring term liabilities to be raised through bank bonds right now.

That aside, even without any incremental growth in infrastructure assets, banks could now look to issue infrastructure bonds for up to 16% of their existing infrastructure loan book– that alone amounts to about INR 1.4T of potential bank bond issuances. There will be issues that banks will need to sort out – including managing the interest rate risk inherent from issuing fixed rate bonds to fund currently a largely floating rate asset book. However, the benefits of these issuances to the issuing banks, in terms of lower statutory requirements, would be significant. This would be direct supply of duration paper into the market, even without any net increase in assets, which could push corporate spreads higher.

One could also argue that with lower rates being passed on by banks to fund infrastructure, and hopefully, with the eventual revival of the investment cycle, end user demand for funds may also eventually increase. As banks start to see lower statutory pre-emptions, their inherent demand for government debt will reduce as well.

All this could actually have the impact of creating a demand shortfall for duration paper, both in corporate and government debt.

Taking Stock & Synthesizing

If we were to pull all this together, the immediate impact on government and corporate bonds appears to be a mix of higher supply of duration paper, with possibly lower demand from investors. This is not entirely desirable – in fact, the higher rates and corporate spreads this entails can actually negate the steps taken in incentivizing infrastructure lending. There are a few suggestions in this regard.

First, the cloud over debt mutual funds, particularly open-ended mu-

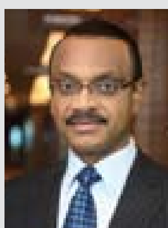
tual funds, is a step back for debt capital markets and corporate bonds in particular. While the close-ended short dated FMP tax arbitrage needed to go, open-ended debt mutual funds are a significant vehicle for financial disintermediation through corporate bonds, and deserve better incentives. Open-ended debt funds could do with the previous regime of tax breaks after 12 months, rather than the proposed 36 months. Investors would then be incentivized to retain their allocations to debt, and increase their duration outlook. This increased duration demand could help meet some of the increased duration supply from bank infrastructure bonds, and eventually, from end users as well.

Second, the anomaly of direct debt investments of investors retaining the previous preferential tax treatment beyond 12 months (as opposed to the 36 months now proposed for investments through non-equity mutual funds) needs to be addressed. If the suggestion that the previous tax regime for open-ended debt funds be retained were accepted, that would also address this anomaly.

Thirdly, we must recognize the immediate mismatch in supply and demand for government debt, despite the satisfactory fiscal deficit path outlined in the budget. Banks will be able to reduce their SLR demand, thanks to the infrastructure incentives. Debt mutual fund demand for government bonds could remain depressed. With competing supply of bank infrastructure paper, demand for government debt from insurance, pension funds and other investors could decline. RBI is not likely to conduct open market purchases of government paper – this was a significant source of demand for government debt in the past three fiscal years. On the contrary, RBI has actually been selling government bonds in the market the last few weeks.

To counter this, there is a need to increase FPI limits in government debt at this stage. To filter out some of the asset swapped hot money that comes in through the FPI debt route, there can be a minimum residual tenor requirement of say 3 years on all FPI debt purchases.

Finally, there is a need to release some primary liquidity into the system as well, and bring down shorter end interest rates. Now that concrete steps have been taken to incentivize investments over consumption, and given that INR has been stable since September 2013, RBI should allow some additional liquidity to flow into the system, and steepen the interest yield curve. That can lubricate and truly give a fillip to infrastructure investments in the country. Infrastructure, in turn, can address our various macro challenges – including controlling inflation through improved supply and efficiencies, and fostering sustainable growth, controlling twin deficits and generating employment through unlocking manufacturing and exports.



Ananth Narayan G

Co-Chair Debt Market Subgroup of FICCI's Capital Markets Committee & Regional Head, Financial Markets, South Asia, Standard Chartered Bank

Ananth has 20 years of experience in the banking industry. He joined Standard Chartered Bank in August 2009. As Regional Head of Financial Markets in SCB, he has responsibility for business strategy, performance and people for Financial Markets across South Asia. Prior to Standard Chartered Bank he was with Citibank in Mumbai till 2005 (Director & Head of FICC Trading), and with Deutsche Bank in Mumbai (Head of Rates Sales & Trading, South Asia – till August 2009)

Ananth is a director on the board of Fixed Income Money Market and Dealers Association (FIMMDA), on the board of Standard Chartered Securities (India) Limited. Ananth has been a part of various RBI committees (including the one that launched FX Options in India, Interest Rate Futures, Financial Stability, Financial Benchmarks etc). He appears in print and television media for views on financial markets.

He holds a B. Tech (Electrical Engg.) from Indian Institute of Technology (IIT) Bombay and a MBA from Indian Institute of Management (IIM) Lucknow.

Views on Union Budget 2014-15

Mr. Y. Venkata Rao
Chief Investment Officer, Star Union Dai-ichi Life Insurance Co. Ltd.

Backdrop

Union Budget FY 2015 is set against the backdrop of low economic growth of less than 5% over the preceding two years, alarming fiscal deficit, elevated inflation, stubborn interest rates, ballooning subsidies on populist welfare initiatives, falling rupee (double digit depreciation in the preceding two years), savings rate falling to about 30% and a challenging global environment. While the interim budget attempted to address these issues, with elections around the corner, it was a half hearted effort by itself.

Indeed, these very factors, which are well articulated over the month long election campaign, brought out change in guard at the Centre, enabling a single party getting majority on its own, after a gap of 30 long years.

Expectations were running high and in some quarters the Budget was looked upon as Panacea for all the ills that the country / economy has been suffering from. Pre budget stock market rally furthered the hopes for a repeat kind of Dream Budget – 1991.

Union Budget 2014 - 15

Set against the backdrop of such high expectations, the Budget focussed on economic growth, fiscal prudence and financial inclusion with due weightage to the social and welfare measures. While it stayed away from

> *In a major move to boost foreign direct investment (FDI) in the economy, it proposed to increase the composite cap of foreign investment from 26% to 49% in Defence Manufacturing and Insurance, with full Indian management and control through the FIPB route*

any big bang policy announcements, it provided the vision for sustainable growth – economic growth of 7 – 8% and fiscal deficit of about 3% over the next three years or so. It also spelt out various initiatives under Public Private Partnership (PPP) and summarising it *"Sab ka Saath Sab ka Vikas"*.

The budget projecting the domestic economy at US$ 2 trillion, appears realistic albeit challenging, focussed on growth, providing more for plan expenditure (27% YoY), moving a bit away from populism (subsidy outlay to be less than 2%). While trying to meet the fiscal deficit target of 4.1% for the year, it focussed on infrastructure, manufacturing and agriculture sectors.

The budget has outlined several key thrust areas for the government, both short-term and medium-term in nature. The government emphasised the need for offering greater support to the manufacturing sector, including sops for setting up new industries. Job creation is a key policy platform for the government, and it has indeed encouraged more labour-intensive manufacturing sectors to expand business.

Other Salient features:

- Gross tax collections to increase by 17.7% at projected tax to GDP ratio of 10.6%.
- While overall expenditure is to increase by 12.9%, more productive plan expenditure to increase by 27% over FY14 to Rs 5,75,000 crs.
- Subsidy pegged at Rs 2.5 lac crore.
- Government borrowings at Rs 4.61 lac crore vs. Rs 4.49 lac crore in FY14 and fiscal deficit at Rs 5.3 lac crore vs. Rs 5.1 lac crore in FY14.
- Disinvestment target raised to Rs 58,400 cr for FY 15 - Rs 43,400 cr from stake sales in PSUs and Rs15,000 cr from residual stake sales in erstwhile government companies.
- Agriculture lending target set at Rs 8 lac crore against Rs 7 lac crore in FY 14.
- MNREGA outlay kept unchanged at Rs 33,000 crore.
- Government to look at consolidation of PSU banks and providing autonomy to them. Rs 13,450 crore is budgeted for recapitalisation of banks.
- Rationalisation of Customs (reduction on inputs and increase on finished goods) and Excise duties (reduction in manufacturing and consumer durable sectors and increase in cigarette and aerated drinks).
- 15% investment allowance for manufacturing companies introduced last year has been extended till FY17 and the threshold of capex has been lowered to Rs 25 cr from Rs 500 crore earlier.
- Govt confident of finding solution to Goods & Services Tax (GST – combining all indirect taxes at State and Central level).
- Government also to review the DTC in its current form.
- Dividend Distribution Tax now has to be calculated on gross basis (dividend + tax) rather than net basis (just dividend).
- FII portfolio income to be treated as capital gains.
- Indian Accounting standards to converge with IFRS standards by FY 2017 – excluding for Banking and Insurance sectors.

The following are the measures that focus on Infrastructure / Social and Welfare measures / FDI / Retail Savings:

Infrastructure

- Target of National Highways construction of 8,500 km in current financial year, with outlay of Rs 37,880 cr in NHAI and State Roads is proposed which includes Rs 3,000 cr for the North East;
- Allocation of Rs 14,389 cr for PM Grameen Sadak Yojana;
- Awarding of 16 new port projects;
- Developing Airports in Tier 2 & 3 cities;
- Developing "one hundred Smart Cities" with an outlay of Rs 7,060 cr;
- Augmenting Inland waterways;
- 10 year tax holiday extended to the undertakings which begin generation, distribution and transmission of power by 31.03.2017;
- Infrastructure Investment Trusts (INVITS) on the lines of REITS for infrastructure projects to attract

long term finance from foreign and domestic sources.

- Long term funding raised to fund infra projects by banking sector to attract minimum CRR/SLR/ Priority Sector requirements;
- Separate feeder to augment power supply to the Rural areas with an outlay of Rs 500 cr;

Social and Welfare Measures

- Budget also touched upon several developmental and social initiatives of the government. Small amounts were allocated for initial studies/pilot projects Low cost housing, Sanitation facility for every household, irrigation projects.
- Skill India to be launched to skill the youth with an emphasis on employability and entrepreneur skills.
- Price Stabilisation Fund of Rs 500 cr – to mitigate the price volatility in the Agriculture Produce.

Foreign Direct Investment (FDI)

In a major move to boost foreign direct investment (FDI) in the economy, it proposed to increase the composite cap of foreign investment from 26% to 49% in Defence Manufacturing and Insurance, with full Indian management and control through the FIPB route.

It would provide major fillip to the much needed capital infusion in the insurance sector, for furthering the insurance penetration in the country.

However, it is important to note that serious investors in a long term business like Life Insurance, do look for wholesome role apart from economic ownership in the enterprise.

Retail Savings

Increase in basic exemption limit for Income Tax by Rs 50,000 (Rs 2 lac to Rs 2.50 lac) and another Rs 50,000 being eligible for 80 C benefit (Rs 1 lac to Rs 1.50 lac) are likely to provide much needed relief to the public at large, increasing the disposable income and also encouraging the increased savings. This is likely to have positive bearing on Banking sector and also the Collective savings sectors – Insurance and Mutual Fund. However, an exclusive window under section 80C for Life Insurance and Health insurance would have helped increasing awareness and penetration of Insurance. Exemption limit on interest on housing loan for self occupied property increased from Rs 1.50 lac to Rs 2 lac. Similarly, exemption of service tax on micro insurance policies would provide some more impetus to this segment of insurance.

However, on the flip side are two proposals – (i) rationalisation of tax structure (both tax rate and capital gains period) on debt mutual funds; and (ii) 2% TDS on insurance policy payouts, where Section 10 (10 D) is not applicable.

Favourable tax structure for MF debt schemes has contributed to the significant growth of the MF industry, which can be seen from more than 70% of the assets being under Debt funds. While one may view the proposal on tax rationalisation as providing a level playing ground for other competing products – like bank deposits, the same cannot be said about TDS on insurance policy payouts.

In a country, where the Government, in spite of its intent, is not in a position to provide the Social Security Network at the desired level, insurance policies, which are long term financial products, provide protection under two scenarios –

- Financial security to the dependents in case of untimely death (Sum Assured); and
- Financial independence to Self, in their silver years (post retirement)

Taxing the policy payouts, on the premise that it would be an investment product as the annualised premium was more than 10% of the sum assured, is harsh, to say the least, and may warrant immediate relook.

Attractiveness of Financial Savings

While Gross Domestic Savings itself has come down to about 30% from 36% earlier, impeding the much needed capital formation in the country for long term growth, the other worrisome point is the dwindling share of financial savings in the total savings, over the past 5 to 6 years. During last year, we have seen measures by the Government to curb the demand for physical

assets – by increasing duty on gold and restricting its imports. While these measures are answer to the symptoms, they are not solution for the root cause. The route cause lies in the higher returns the physical assets (Real Estate and Gold) delivered over the financial assets (equity, debt, bank deposits) over that period. The answer lies in making the financial investments attractive or by offering some incentives.

Even the Finance Minister, while quantifying the large capital requirements of the banking sector, mentioned offering the equity to the public, as one of the funding options. In the absence of perceived higher returns from financial assets, such offers even at discount may have limited effect / impact.

Conclusion

While the budget might have disappointed those who were expecting this to be cure all prescription for all the ills and fell short of detailing definite plans and timelines for some of the ambitious projects outlined and GST etc., it is perceived as optimistic yet practical one, touching upon many of its electoral promises and outlining the roadmap for the reforms which are likely to be initiated in the coming quarters / years.

It would be of interest for domestic and global investors, how the broad modalities get executed in coming months. Hence, this Financial Year would carry a special importance in the history of the nation.

Y. Venkata Rao

Chief Investment Officer, Star Union Dai-ichi Life Insurance Co. Ltd.

Mr. Y. Venkata Rao, a graduate in Science& MBA with specialization in Finance from Institute of Public Enterprise, Hyderabad, is the Head of Investments in Star Union Dai-ichi Life Insurance Co. Ltd. – a joint venture between two leading PSU Banks & Dai-ichi Life of Japan.

With a career spanning over 30 years in LifeInsurance sector, Mr. Rao has rich experience in the areas of Investment, Marketing, IT, HR & Training. Before taking up his role in Star Union Dai-ichi Life Insurance, Mr. Rao was associated with LIC of India& its associates– his last assignment beingthe Chief Investment Officer of LIC Mutual Fund.

Mr. Rao, a founder member ofStar Union Dai-ichi team, currently manages assets of over Rs 5,000 crore.

He has also participated inseveral cross functional training programs conducted at IIM- Ahmedabad; IIM-Kolkatta;MDI-Gurgaon; and at CRISIL & UTI. Besides, he has been Guest Speaker at many forums.

Reactions to the Union Budget 2014-15

Mr. Sandip Biswas

Chair, Corporate Finance Subgroup of FICCI's Capital Markets Committee &
Group Executive Vice President Finance, Tata Steel

These days a lot of hype is created by media on the Union Budget. Budget is positioned as an answer to all our economic woes. The policy of government does not get speltout only during Budget. It can happen any time. Saying that Budget however remains an important document to give us directions on Government's annual plan for the fiscal year. The new government faces a daunting task of reviving the economy which is experiencing one of its most challenging times with sub 5% GDP growth, high inflation and depreciating currency. The Union Budget for 2014-15 was one with a thrust on steady re-building of the economy and glimpses of the structural reforms the new government aims to bring.

The FM chose financial prudence over large populist measures and emphasized on infrastructure development, revival of manufacturing and resolving supply side bottlenecks. The FM also showed caution on rollback of retrospective taxes in order to provide a stable and pro-growth tax regime. Increase in FDI limit to 49% in the insurance and defence manufacturing sectors, signals the government's intention to move towards a more liberal FDI regime over time.These measures will provide the ability to bridge any short-term current account financing shortfall through

The first budget of the Modi government might not have been a game changer, but it has clearly outlined steps in the right direction

FDI inflows. Along with improved investor confidence, this should strengthen the Indian rupee. While the industry would have preferred more clarity on the goods and services tax (GST) regime, the FM has committed to usher in the GST soon.

On the fiscal front, the government has displayed commitment to contain the deficit to within 4.1% and reduce it to 3% by 2017. The target is ambitious with aggressive expectation on revenues (increase of 15.5%) and subsidy control (decrease of 0.3% of GDP). However, I would give the government a fair chance before writing off its ability to control deficit. The quality of spending is set to improve with greater emphasis on investment-inducing capital spending (growth of 21%). The government is likely to restrain subsidy expenditure through increase in fuel prices (including urea and natural gas). As the economy revives, tax revenue could rise to inch closer to the expectation of the FM.

One of the key part of the budget is the emphasis on facilitating ease of doing business through measures such as launch of e-Visa, Indian Customs Single Window Project for trade, interusability of the KYC records across the entire financial sector and making all business and investment related clearances available on a 24x7 single portal. Expectedly, there has been focus on leveraging IT across the economy.

The FM has announced a significant number of measures for the social sector. It needs to be kept in mind that the potential demographic dividend of India can't be reaped without a focus on human development through education and health. Overall allocation for the education sector received a boost by 11%. Emphasis on setting up five more IITs and IIMs and new government medical colleges is a welcome step. The need of the hour is public-private partnership for development of the social infrastructure and I expect this to gain momentum over the course of the year.

Measures have also been announced to enable better flow of credit to various sectors, including agriculture, housing, infrastructure and MSMEs. The emphasis on the financial strengthening of PSBs to improve capitalisation to meet Basel III norms will greatly improve the stability of the sector. Liberalisation of ADR/GDR regimes will help Indian companies attract foreign investments.

The industrial sector has experienced a rough year with the Index of Industrial Production(IIP) contracting by 0.1%, its first contraction in over three decades.The annual IIP for capital goods contracted by ~4%. Along with the contraction of the manufacturing sector, mining industry also contracted by 1.4%.An ominous sign for a developing economy is capital formation which experienced a contraction of 0.1%. Structural bottlenecks, pending infrastructural projects and lack of investor confidencehave all led to contraction in investments. In light of this, the broad based impetus provided in the budget for investment revival across sectors is a much needed step. There is a renewed focus on the infrastructure sector and the Government has taken a number of initiatives to boost it. Measures announced for development of physical infrastructure such as roads, railways, industrial corridors and rural infrastructure will significantly improve the connectivity within all parts of the country and will be supportive of the broad manufacturing activities. Proposals in the infrastructure and the defence sectors are going to increase demand for heavy machineries and equipment. With a mission of "Housing for all by 2022", the Government has increased the interest limit for tax exemption and is focusing on low cost affordable housing through NHB. These initiatives will provide the thrust to the real estate and construction sector. Incentive to REITs will open the door for real estate developers to raise funds from the alternative source, both domestic and international sources.

The budget will have a largely positive impact on the metals & mining sector. The government has displayed intention to enhance domestic production, encouraging investment and expedite resolution of the issues plaguing the mining sector. The Government also proposed to amend the Mines and Mineral Development and Regulation (MMDR) Act. These measures will boost the sentiment in the sector. Increase in customs duty on imported flat rolled steel will help in countering the growing threat of imports. Other measures such as

reduction of duty on ship breaking scrap from 5% to 2.5% and rationalising it with the duty on melting scrap of iron or steel will increase the availability of metal scrap. Reduction in customs duty for steel grade limestone and dolomite is also a positive for the sector. The normalisation of import duties on all non-agglomerated coal at 2.5% basic customs duty and 2% countervailing duty will remove delays and procedural issues. The move to increase basic customs duty on metallurgical coke to 2.5% will impact the sector adversely though. The industry has been expecting a revision of royalty rates on minerals for some time and the implication will become clearer in due course. Measures boosting construction and infrastructure sectors like development of 100 smart cities, gas pipelines, new roads, ports and airport and 10 year tax holiday on power projects that commence generation, distribution and transmission of power by March 31, 2017 are hugely positive for the metal sectors.

The first budget of the Modi government might not have been a game changer, but it has clearly outlined steps in the right direction. Every sector has been touched upon with an emphasis on resolving the bottlenecks. Given the short time the government has been in power, specific measures on some of the issues not touched upon in the budget could be announced later. With a clear electoral mandate and the PM's track record of delivering, I believe the new government will succeed in implementing key measures and putting the economy back on track. *"Ache din"* will come.

Sandip Biswas

Chair, Corporate Finance Subgroup of FICCI's Capital Markets Committee & Group Executive Vice President Finance, Tata Steel

Mr. Sandip Biswas is an Honours Graduate in Commerce from Calcutta University, a Member of The Institute of Chartered Accountants of India and also The Institute of Company Secretaries of India. Mr. Biswas had a distinguished academic career, being a National Scholar and National Talent Search Scholar. Mr. Sandip Biswas joined Tata Steel in 2005 as Chief Foreign Exchange & Treasury Management

Mr. Sandip Biswas has been appointed as Group Executive Vice President Finance w.e.f 1st April 2014, having the responsibility of the company's finance function. Mr. Biswas is responsible for Financial Performance & Reporting Mergers & Acquisition, Risk Managementand Investors Relations.

Mr. Sandip Biswas as Group Director (Corporate Finance and M&A) was responsible for the Tata Steel Group's Financing Strategies, Capital Structure, Mergers and Acquisitions, Planning and Execution of capital raising activities for debt and equity, liquidity management, foreign exchange risk management, investor relations activities and corporate legal among others. Prior to taking up this assignment, Mr. Biswas was Group Head – Corporate Finance, Treasury and Investor Relations, Chief Corporate Finance and Treasury and Chief Foreign Exchange & Treasury Management for Tata Steel Limited, India.

He is also director in several Boards of Tata Steel group companies in India and overseas includingseveral critical joint ventures. Currently Mr. Biswas is the Chairman of few of the Companies including few important mining ventures overseas.

Mr. Sandip Biswas was bestowed upon the award of the Risk Manager of the year 2006 award by Asia Risk magazine Hong Kong

Before taking employment in Tata Steel, Mr. Sandip Biswas had worked with American Express Bank, ANZ Grindlays Bank, First India Mutual Fund, CEAT Finance Ltd, Usha Martin Industries Ltd and Price Waterhouse and holds several years of experience in Global markets with American Express and ANZ Grindlays Bank.

Mr. Biswas holds more than twenty one years of post qualification experience.

Reactions to the Budget 2014-15

Mr. Shekar Viswanathan
Vice Chairman &
Whole-Time Director, Toyota Kirloskar Motor Pvt. Ltd.

After having sat through one of the longest speeches by any Finance Minister in recent times including the 5 minute break (necessitated because of the health problem of the FM) the first reaction that I have is whether or not this budget could have been better packaged – the answer is a resounding yes! As an example, the FM, could have announced a total sum covering all the schemes so that it looks bigger and gives you the flexibility to have a swing number based on the actual amount required by each of the schemes. Clearly this budget was in many ways a continuation of the UPA budgets presented, and even if political capital was lost in the process I believe economic capital was gained. Of course the present FM should be encouraged to add a dash of poetry to liven up the speech as others before him have done!!!

Some of the more interesting schemes that seek to leverage efforts by other bodies are in the area of Urban Development. The Pooled Muncipal Debt Obligation Facility which currently has a corpus of Rs.5,000 crores is now proposed to be increased to Rs. 50,000 Crores with the participation of several banks to promote and finance infrastructure projects in Urban areas on a risk sharing basis – the areas that will be covered include solid waste disposal, sewerage treatment and drinking water. **It will of course be important**

Going forward the government needs to focus only on how much it can get out of this market to fund its coffers not on whether individual players are passing on excise duty cuts to customers – this is for the market to decide.

for industry to understand if and how this money can be used for the upkeep and adding of new facilities in Industrial Estates and surrounding areas. Many Industrial Estates are now located in urban agglomerations as cities have grown.

The interest subvention scheme for short term crop loans is sought to be continued. The cost of funds is only poised for an up tick and in this scenario the subsidy to farmers on account of interest will only go upwards. However, in a situation where drought like conditions are likely to hamper food production this was perhaps a sensible move in the right direction. Similarly an allocation of Rs. 5,000 crores towards a Warehouse Infrastructure Fund which will help agricultural produce in particular be stored safely are steps in the right direction.

As I am from the 4 wheeler automobile industry I will certainly wish to applaud the Finance Ministry for having done the following: Even before the budget announcement was made the ministry announced the extension of the reduced excise duty rates applicable to cars - again a welcome continuation of the UPA budget direction given. Currently the rates on small cars is at 8% while on the bigger cars is at 24% plus. Another industry friendly direction adopted by the Ministry is that the concept of "valuation" under excise law that has now been set at rest – following a judicial pronouncement in one particular case, the department of excise, in its zeal to collect revenues for the government, had adopted a rather hawkish stance in defining the value of a car that was based on cost plus an imputed profit – happily the government has post the budget 2014-15 now clarified that valuation for the purposes of excise would only be done on the basis of transaction value or what would be stated in a normal commercial transaction that was typically done on an arms length basis

between consumer and seller of cars.

Yes there is more that needs to be done for the 4 wheeler automobile segment as indeed for other sections of the automobile industry. For the 4 wheeler segment carving tax slabs of excise duty on an artificial definitions such as the length of the car (4 metres and less is one criteria) or on the engine capacity of the vehicle (1500 cc or less is another criterion) or the ground clearance of the vehicle (170 mm or less is one more criteria) leads to cars being sub optimally engineered. Clearly the government must do away with having all this criteria and have a common rate of tax for all segments. The market must decide the kinds of cars it needs- small, big or beautiful. The government is also a player in the car market in as much as the greater the sales volumes the greater is the tax collection for the government. Going forward the government needs to focus only on how much it can get out of this market to fund its coffers not on whether individual players are passing on excise duty cuts to customers – this is for the market to decide.

Moving on, to the overall budget numbers, the highest amount of a single line item of expenditure that the GOI incurs is not on defence or subsidies (though these are also significant) but on interest payments to service the borrowings that the government has engaged in over the years. In the current budget, interest payments amounts to 35.9% of total projected revenues and if you consider the total debt servicing as a percentage of projected revenue collection this is 54 % of total revenue. A comparative number for subsidies is 22% and for defence 11%. The total revenue receipts projected is a staggering Rs. 1,189,763 crores. Further, this is only the non Plan Revenue Expenditure. Non plan capital expenditure is an additional Rs. 105,823 crores the bulk of which is planned to be spent on defence expenditure.

In addition to all this we also have Plan expenditure amounting to Rs.575,000 crores for assistance to the States and Union territories.

While this budget has not done anything specific to rein in expenditure the slogan of "less government more governance" is perhaps the only pointer that the Finance Ministry is seized of the problem. What the government perhaps needs to do is to both adhere strictly to the Fiscal Responsibility and Budget Management Act or to make it even more strict – but this is a mere paper exercise which while important may not address the root cause of the problem. It is going to be very difficult for the government

to reduce expenditure going forward as most items are of an inelastic nature. Defence expenditure cannot be touched, grants to states and union territories are required by individual state governments, pensions and police expenditure are committed items and therefore there appears that there is little the government can do. Subsidies can be tackled to a limited extent but this will be a drawn out exercise.

What the Government can do, to some extent, is to limit the borrowing and the coupon rate they pay on these borrowings. How the government can do this will be the subject matter of discussion and debate for some time to come. At present any government borrowing in the rupee market is crowding out borrowing by the private sector and is actually pushing up interest rates in the economy. I see very little possibility on interest rates coming down over next 5 years.

It is also important for the Finance Ministry to keep a watchful eye on the amount of foreign currency borrowing that the country has on its books – currently about USD 400 billion plus against reserves of USD 300 billion. Of course the bulk of the borrowing is from multilateral agencies and bilateral arrangements apart from NRI's and this is a matter for comfort. However this is not a bottomless jar from where we can draw resources to fund our growth.

The annual budget exercise is now one of who gets the best tax concessions, and whether the government can do enough for individual sectors of the economy – there is little discussion on the burgeoning amount of government expenditure and borrowing and the measures required to contain it. The only way forward to finance this budget deficit is rely on Foreign Direct Investment in different sectors of the economy to push up employment and economic activity in the economy. Hopefully this will garner higher tax revenues for the government going forward.

This is in essence therefore what this Budget is all about – an overwhelming faith reposed in Foreign Direct Investment and the PPP model to do for the economy what government spending has been unable to achieve over the years.

Shekar Viswanathan

Vice Chairman &
Whole-Time Director,
Toyota Kirloskar Motor Pvt. Ltd.

Mr. ShekarViswanathanis a BA Economics graduate &a Chartered Accountant. He is an Associate of Institute of Chartered Accountants of India. He has 33 years of rich experience in banking &Industrial sectorsin various fields such as Finance, Legal, External Affairs, Corporate Social Responsibility, IT, Human Resource, etc.

He began his career in banking sector in 1981 with Unit Trust of India and then moved toChase Manhattan Bank,later in Lazard Brothers until 1995. During 1995 – 1998, Mr. Viswanathan was associated with Haldia Petrochemicals Limited - A USD 2 billion Petrochemical Enterprise, as a General Manager – Finance.

In 1998, he joined the Toyota Kirloskar Group, as a member of Board of Directors & Deputy Managing Director. Presently, Mr. ShekarViswanathanholds the position of Vice Chairman & Whole-time Director in Toyota Kirloskar Motor Pvt. Ltd.

He is also a Director of Kirloskar Systems Ltd since 1995 & an Independent Director in ASM Technolgies Ltd since 2011.

Synopsis of Past Event

2nd Annual Financial Sector Conclave (FINSEC – 2014)

July 14 – 15, 2014, Hyderabad

L-R: Shri Somasekhar Sundaresan, Partner, J Sagar Associates; Justice (Retd.) B N Srikrishna, Chairman, FSLRC; Shri R Raghuttama Rao, Managing Director, IMaCS; Shri Radhakrishnan Nair, Member (F&I), Insurance Regulatory and Development Authority (IRDA); Dr. Arbind Prasad, Director General, FICCI

Federation of Indian Chambers of Commerce and Industry (FICCI) hosted the 2nd edition of Financial Sector Conclave (FINSEC – 2014) on 14th – 15th July, 2014 at ITC Kakatiya, Hyderbad under the theme '*Synergies for Bolstering Development in South India*'. Top decision makers, regulators and CMDs and CEOs from the financial sector including banks, insurance companies, financial service institutions and other stake holders were invited to tackle the challenges to development of the South Indian financial market. A wide range of issues, which are more pertinent to southern India were deliberated upon during these two days of discussion including financial markets and consumer protection, PSL in banking sector, re-insurance, infrastructure financing, governance and regulation of micro finance institutions (MFIs), financing of agricultural value chain and role of credit rating agencies amongst many others.

FINSEC 2014 was a high profile knowledge sharing and networking platform. The objective of this conclave was to invite leaders from the state and central government, regulators and policy makers, industry and academician toaddress these nuances of specific sectors in South India. It acted as a platform todiscuss the best business practices that have worked in South India that may be replicated in other parts of the country. It is also an opportunity for the southern states to learn of best practices from other parts of the country.

This conference has garnered tremendous interest from public and has gained immense popularity in the media front. The financial sector division plans to hold this as an annual event concentrating on the southern Indian states in collaboration with the FICCI State Offices and local state chambers of commerce. The next FINSEC has been planned at Bangalore in 2015.

Notes

FICCI

Indian Banks' Association

FIBAC 2014

Banking Productivity in the Digital Age

15th -16th September, 2014

Hotel Trident, Nariman Point, Mumbai

Federation of Indian Chambers of Commerce and Industry (FICCI) and Indian Banks' Association (IBA) are organising an annual premier banking conference FIBAC on 15th -16th September, 2014 at Hotel Trident, Nariman Point, Mumbai. The theme of the conference is 'Banking Productivity in the Digital Age'. BCG is the Knowledge Partner to the conference.

Key Sessions

- Towards global benchmarks in productivity in the digital era
- Financing India's next decade of growth: What will it take?
- Financial Inclusion 2.0: Serving the unbanked in a digital world
- What is the optimal structure for Indian Banking – what is the raison d'être of public sector banks?
- Opportunities for greater co-ordination among the South Asian banking industry
- Indian Banking Sector: Are we ready, willing and able to serve Indian SMEs?
- Evolving payments ecosystem: The war for transactions
- Stressed Assets: Leveraging technology to pre-empt and control asset quality
- Digital Security: Challenges in a world with "always connected" consumers'
- Next Gen HR : Performance management solutions in a digital world'

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Conference Website

www.fibac.in

CAPAM 2014

11th Annual Capital Markets Conference

Revitalizing Indian Capital Markets: Role of Foreign Investors & Domestic Institutional Investors

8th October 2014

Hotel Trident, Nariman Point, Mumbai

Mr. U. K. Sinha
Chairman
Securities & Exchange Board of India

About the Conference

CAPAM is a leading event in the Indian capital market space and provides an excellent platform to discuss and debate key issues pertaining to the sector. The event is addressed by senior policy makers, regulators, national and international experts.

CAPAM 2014 will focus on the theme 'Revitalizing Indian Capital Markets: Role of Foreign Investors & Domestic Institutional Investors'. Mr. U.K. Sinha, Chairman, Securities & Exchange Board of India (SEBI) will deliver the Inaugural Address.

Target Audience:

Senior representatives of industry, financial institutions, foreign portfolio investors, brokers, banks, stock exchanges, investment and merchant banks, financial analysts, fund managers, investors, economists, academia and media.

Focus Areas:

Ways to revitalize Indian capital markets through business-friendly policies and regulations, attracting greater foreign and domestic institutional investments, channelizing domestic retail savings into capital markets and encouraging alternative investments such as private equity.

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FICCI's Corporate Identity Number (CIN): U99999DL1956NPL002635

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